



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Dixon Landing Park



Selwyn Park



Dog Park



Foothill Park

City of Milpitas
CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES



CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

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CITY OF MILPITAS

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October 30, 2006

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2006. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

The report is divided into three sections:

- I. Introductory section, including this letter of transmittal, directory of City officials, Map of City's location, City's organizational chart, and reporting awards.
- II. Financial section, including the auditors' report of Maze & Associates, the City's independent certified public accountants, management's discussion and analysis, the basic financial statements, notes to the financial statements, required supplemental information and the combining financial statements for non-major funds.
- III. Statistical section, including a number of tables and graphs of unaudited data depicting 10 years of financial history about the City and information on its overlapping governmental debt.

A separate single audit report has been prepared in conformity with the provisions of the Federal Single Audit Act amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments."

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Redevelopment Agency (the Agency) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. In accordance with the criteria of the Government Accounting Standards Board Statement 14, the basic financial statements include the financial activity of the City, the Agency, and Terrace Gardens. The Agency and Terrace Gardens are separate legal entities from the City and are controlled by the City. The Agency has the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Agency and Terrace Gardens Inc. issue their own component unit financial statements.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services. These include: police, fire, community services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, redevelopment, and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission; Bicycle Transportation Advisory Commission; Citizen's Emergency Preparedness Advisory Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 30 years, the population growth has increased from 26,561 in 1970 to over 62,698 in 2000 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2002 and 2004, over 130,000 jobs were lost as a result of the economic recession. This region was severely impacted due to concentration of the high-tech industry and shifting of some of these technology and manufacturing jobs overseas. Consequently, while the nation and the rest of the State began to see economic growth, the Silicon Valley was still lagging. Milpitas is similarly impacted because of its location and comparable economic mix. In fiscal years 2005 and 2006, economic activities in this region began to improve but the recovery was moderate as job growth was still limited and vacancy rates for office, manufacturing and R & D space remained high.

There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks. An estimated 350 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. There are 550 manufacturing plants in Milpitas. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

The leading economic segments are restaurants, apparel stores and electronics equipment. The five largest manufacturing employers are Cisco Systems, Inc., Lifescan Inc., Solectron Corporation, LSI Logic Corporation, and Seagate Technology. Other major employers are Linear Technology, SanDisk, and KLA-Tencor. Several of these top employers make Milpitas their corporate headquarters. The two

largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

Milpitas Redevelopment Agency (RDA) is one of the top ten RDAs in the State. With the 2003 expansion of the RDA, Redevelopment Area 1 encompasses 2,230 acres or 26% of the City. The Project produces over \$28 million in annual gross tax increment. In November 2003 the RDA issued \$200 million in tax allocations bonds to generate funds for key City and Agency projects including a new library, major infrastructure improvements and a new senior center.

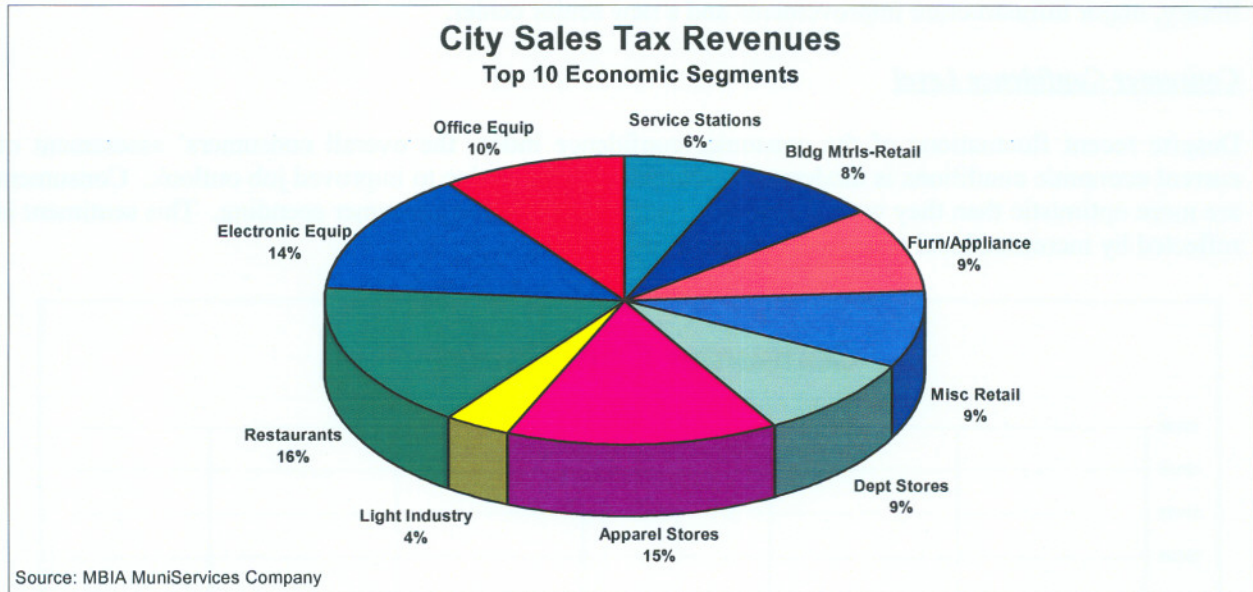
Consumer Confidence Level

Despite recent fluctuations of the consumer confidence index, the overall consumers' assessment of current economic conditions is moderately favorable, primarily due to improved job outlook. Consumers are more optimistic than they were a year ago, which could lead to consumer spending. This sentiment is reflected by increased local sales tax revenue in fiscal 2006.



Top Ten Sales Tax Generators by Economic Segment

The chart below provides an overview of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$13.1 million, with the top ten economic segments generated about \$11 million. Sectors such as business-to-business, general retail and food products all show improvement over a year ago.



Many of the major activities initiated in FY05-06 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

Major Activity in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began by several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities that are being planned by outside agencies include the design and construction of a County Health Center, parking garage and a 103-unit Senior Housing project restricted for low-income seniors.

Transit Sub-Area Land Use Plan – The City developed phase I of a Transit Sub-Area Land Use Plan which provides a development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. In FY 05-06, the City completed phase II of the Plan which includes a general plan amendment, zoning changes, design guidelines, fiscal impact study and environmental report. The next phase of this project is to complete the Precise Plan. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, schools, retail and restaurants.

Residential Development – Residential development activities remained relatively strong and have shown signs of increased activities. Milpitas represents one of the more affordable alternatives in Santa Clara County, with median home price at \$629,000, lower than the County's median home price of \$675,000. Residential development approvals in progress outside the Midtown area include Barry Swenson's Twin Towers (181 condominium units), Aspen Apartments (101 units), Town Center (65 housing units) and Baystone condominium (387 units). Spurred by the high density potential of the Midtown Plan, residential and mixed use development that are in the planning stage include Apton Plaza (98 condominium units and 3,000 square feet of retail space), Centria (481 condominium units), and Oak Springs (147 condominium units). Residential development under construction includes 683 condominium and townhouse units of the KB Homes project, of which 110 units will be deed restricted for affordable housing.

Non-residential Development – Non-residential development includes redevelopment of existing tenant spaces and buildings in the Town Center. A Super Safeway has been approved and construction is in progress. Other commercial development activities include the development of land adjacent to the KB Homes for three car dealerships. Piercy Toyota was recently approved to construct a 70,000 square foot showroom and a 52-bay service area at that site.

Great Mall of the Bay Area – The Great Mall is the largest enclosed mall in Northern California, with approximately 1.1 million square foot of leasable space. In 2003, Mills Corporation became the new owner of the Great Mall and began its efforts to attract new anchor tenants. Kohl's Department Store became one of the major anchor tenants in 2005. Other new tenants that were added include Nike, Anne Klein, Borders Book, and Abercrombie & Fitch. Other tenant approvals in progress include a Neiman Marcus outlet.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2005-2006, City staff initiated and implemented various programs and projects that will significantly improve services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Responded to 4,030 emergency incidents with an average response time of 4.12 minutes.
- Became the first fire department in the county to certify all its response personnel in new federal command training requirements.
- Presented prevention information at nearly 70 events with over 16,000 public contacts in total.
- Conducted 1,180 plan reviews, issued 562 approvals/permits and performed 1,890 fire inspections.
- Certified 47 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods and increased disaster care-and-shelter facility capacity by 300.

Police

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 3.3%.
- Reorganized the Community Relations Unit to provide two School Resource Officers to Milpitas High School at no cost to the school.
- Implemented a state of the art Computer Aided Dispatch system which received national recognition in 911 Magazine.
- Reduced the number of traffic collisions in 2005 to a five year low of 995 incidents.
- Maintained 100% compliance with registration requirements of known sex offenders.

Engineering

- Completed 17 construction contracts which results in the addition of \$9 million of capital improvements.
- Completed the review and approval of land development projects including KB Homes, Centria, Oak Springs, Apton Plaza and Parc Place residential projects, Buddhist Temple, Capitol retail center, Town Center renovation, NextG franchise agreement and several hillside homes.
- Converted residential recycling from multiple recycling bins to “Single Stream” to provide convenience and an incentive for recycling.
- Completed the implementation of three grant funded projects including a Citywide Traffic Signal Retiming, GIS Collision Database Deployment, and Vehicle Speed Feedback Signs.
- Updated the Stormwater Pollution Control Guidebooks.

Planning/Neighborhood Services

- Completed phase II of the Transit Sub-area Land Use Plan which includes a general plan amendment, zoning changes, design guidelines, fiscal impact study and environmental report to provide guidance to the developments for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations.
- Completed entitlements for 1,260 new housing units, primarily in the Midtown Area.
- Created public information brochures on planning process to enhance customer service.
- Resolved over 1,900 code violations to advance Neighborhood Beautification and to ensure public health and safety.
- Completed the negotiation of four Owner Participation Agreements to provide 164 affordable housing units.

Recreation Services

- Increased yearly attendance at the Teen Center by 58% from 456 to 1,090 participants.
- Solicited grants, donations and sponsorships to help fund various programs and received \$13,616 for Rainbow Theatre, Month of the Young Child and California Arts Day.
- Finalized and distributed City of Milpitas Child Care Start Up brochures via website and hard copy.
- Served over 14,800 participants in aquatics programs, including swim lessons, aquatics exercise, recreation swim and swim team.
- Offered volunteer training for the public and a Shelter Management Class for Recreation staff in preparation for citywide emergencies.

Building Inspection

- Extended express plan review hours from 8:30 am – 11:30 am to 8:30 am – 4:00 pm and accomplished 72% of submitted plan checks over the counter.
- Served more than 8,000 customers with the reduction of average waiting time from 5 minutes to 3 minutes.
- Created and sent courtesy notices to homeowners doing work without a permit. As a result, Building was able to generate more than \$120,000 additional revenue.
- Updated and enhanced Building Division information on “web-page” and developed information handouts for the public.
- Met 100% of expedited plan check requests and provide 90 after hours and weekend inspections.

Administration

- Provided oversight on the development and design for the new library and the design of the new parking garage.
- Implemented financial and personnel strategies to mitigate the loss of revenues due to slow economic recovery without any noticeable reduction of City services.
- Initiated Redevelopment Plan Amendment and merger to facilitate marketing businesses within the Redevelopment project areas.
- Increased City of Milpitas presence in Chamber of Commerce, Joint Venture Silicon Valley, North Valley Private Industry Council and with commercial brokers and large-scale property owners.

Human Resources

- Conducted and completed State mandated Sexual Harassment training by January 2006.
- Created, conducted and analyzed the results from a customer service survey for Human Resources service delivery.
- Developed and distributed a quarterly newsletter to all city staff.
- Successfully transitioned two employee unions to the CalPERS Medical Plan.
- Developed and implemented an exit interview process for employees that are retiring or leaving employment with the City.

Information Services

- Implemented the new Computer Aided Dispatch System for Police Department.
- Completed the Wireless Connection to the City's new Corporation Yard.
- Implemented the Public Access Information System for providing access to City documents via the internet.
- Installed new security cameras at Fire Station 1, the McCarthy Ranch Lift Station and the Community Center.
- Implemented Mobile Computing in the Fire Department vehicles.

Finance

- Received awards from the Government Finance Officer's Association and California Society of Municipal Finance Officers for Budget Presentation and Financial Reporting.
- Continued with various cross training programs of professional staff and clerical staff to enhance flexibility of staffing.
- Revised Purchasing ordinance to comply with State law changes and to streamline the departmental purchasing process and procedures.
- Presented and recommended new budget guidelines and fiscal policies for Council's consideration and received approval.
- Revitalized and reconvened a citywide Risk Management and Safety Committee to discuss risk issues and mitigate risk exposure to employees and to the public.

Public Works

- Maintained infrastructure to preserve integrity with minimum disruption to the public.
- Investigated approximately 3,300 customer service requests within 30 minutes of receipt.
- Maintained employee skills through safety meetings, section cross training and local seminars. Employees received 3,600 hours of training.
- Handled all street light repairs within 24 hours.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council and the members of the Agency by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total general fund budget, although the source of funds is to be determined by the Manager. The appropriations must be reported to the City Council on a periodic basis. Periodic reports of revenue, expense, and investment activity are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as reservations of the fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

Category Fund Type

Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net

assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as Agency Funds. The modified accrual basis of accounting is used as explained in the Notes to the Financial Statements.

FINANCIAL ANALYSIS

General Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Milpitas' MD&A can be found immediately following the report of the independent auditors.

CASH MANAGEMENT

The City has a formal investment policy, which is subject to annual review and approval by the City Council. Available cash for operations was invested in the State Treasurer's Local Agency Investment Fund, corporate notes, money market funds, commercial paper, and government securities. Restrictions on the maturity and percentage of the investments and categorization of credit risk are discussed in the Notes to the Basic Financial Statements. The City's portfolio was invested mainly in Federal Agency Issues, U.S. Treasury Coupons and Corporate Notes. The average annual yield was 3.07% on the City's month-end average investment balances. This compared with a return of 2.82% in the prior year. Investment income includes appreciation or depreciation in the fair value of investments. Increases or decreases in fair value during the current year do not necessarily represent trends that will continue nor considered an impact to available financial resource, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

CAPITAL IMPROVEMENTS

Capital improvement expenditures are accounted for in the capital projects. At the end of the fiscal year, the value of these projects is presented in the Statement of Net Assets as part of the Capital Assets.

City expenditures by project category for all capital improvements for fiscal year 2005-2006 were as follows:

<u>Project Category</u>	<u>Amount</u>
General Government Projects	\$ 538,995
Park Projects	894,504
Street Projects	2,981,802
Water Projects	842,137
Sewer Projects	8,227,424
Redevelopment Agency Projects	13,088,894
Total	<u><u>\$26,573,756</u></u>

INDEPENDENT AUDIT

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, a separately issued document contains the auditors' reports on the internal control structure and compliance with applicable laws and regulations related specifically to the single audit.

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for seventeen of the last eighteen years (fiscal years ended 1988-2005). The 1992-93 report was not submitted to GFOA due to timing delays.

In addition, the City received the California Society of Municipal Finance Officers (CSMFO) Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. Previously the City has received the CSMFO Certificate of Award for five out of six years from fiscal years ended 1987 through 1992, and then again for fiscal years ended June 30, 1998 through 2005. The 1988-89 report and the 1992-93 through 1996-97 reports were not submitted to CSMFO due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA and to CSMFO for award recognition.

ACKNOWLEDGMENTS

I extend my appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, I extend a special "thank you" to the City's Accounting Services Division staff and our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,



Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2006

City Council

Mayor	Jose "Joe" Esteves
Vice-Mayor	Armando Gomez
Councilmember	Robert Livengood
Councilmember	Althea Polanski
Councilmember	Debra Giordano

City Manager
Charles Lawson

Police Chief
Thomas Nishisaka

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Clare Frank

City Clerk
Mary Lavelle

City Attorney
Myers, Nave, Riback, Wilson and Silver

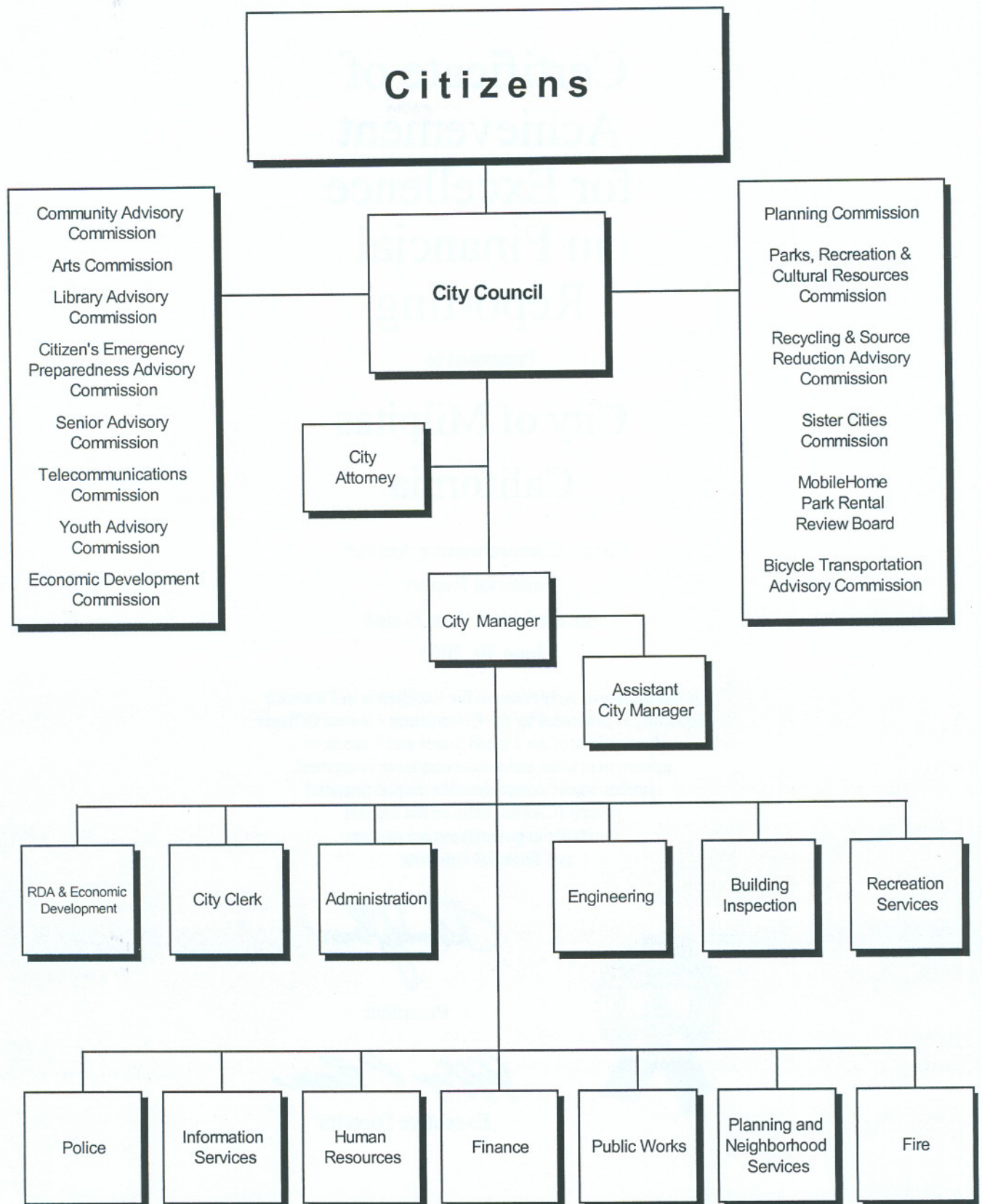
Chief Information Officer
William Marion

Human Resources Director
Carmen Valdez

Public Works Director/City Engineer
Greg Armendariz

Planning & Neighborhood Svc Director
Tom Williams

Chief Building Officer
Keyvan Irannejad



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milpitas
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Milpitas



*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



ACCOUNTANCY CORPORATION

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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

To the Honorable Members of the City Council
City of Milpitas, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2005, which represent 1.66%, 1.03%, and 2.59% of the assets, revenues, and capital assets of the reporting, respectively. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 22, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze and Associates

September 22, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2006 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2006 continued to reflect a positive economic recovery in the business activities in the Silicon Valley. However, the recovery is still considered moderate as job growth continued to be limited and vacancy rates for office, manufacturing and R & D space remained high. Compared to one year ago, local economy has gained strength and the Northern California technology outlook is much improved. The factors that contributed to economic growth are renewed capital investment in information technology, acceleration of home prices in the Santa Clara Valley that led to demand for residential developments, and return to profitability for many high-tech companies. As discussed below, economic growth translated primarily into increases in key revenues such as property taxes, sales taxes, and building permit fees. Fiscal 2006 financial highlights include the following:

City-wide:

- The City's total net assets were \$349.4 million at June 30, 2006. Of this total, \$229.1 million were Governmental assets and \$120.3 million were Business-type assets.
- City-wide revenues include program revenues of \$57 million and general revenues and transfers of \$70.3 million, totaling \$127.3 million, an increase of \$20.3 million from the prior year's total of \$107 million.
- Total City-wide expenses were \$111.1 million, a decrease of \$97.9 million from the prior year's \$209 million. However, prior year's expenses included a special item redevelopment expense of \$102 million. If that special item was excluded, FY 06 expenses would have been an increase of \$4.1 million.

Fund Level:

- Governmental Fund balances were \$210 million, a decrease of \$2.3 million from fiscal 2005.
- Governmental Fund revenues increased to \$97 million in fiscal 2006, up \$13.4 million from the prior year's \$83.6 million.
- Governmental Fund expenditures were \$105.8 million in fiscal 2006, an increase of \$5.3 million from fiscal 2005's level of \$100.5 million.
- General Fund revenues of \$56.3 million represented an increase of \$10 million from fiscal 2005's revenues of \$46.3 million.
- Net transfers into the General Fund were \$10.6 million in fiscal 2006, \$3.3 million less than fiscal 2005's transfers of \$13.9 million.
- General Fund balance of \$29.2 million at the fiscal 2006 year-end represented an increase of \$1.2 million from fiscal 2005's fund balance of \$28 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Supplemental Information,
- 5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
- 6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net assets for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City acts solely as a depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of these Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The basic financial statements can be found in pages 19-21 of this report.

All of the City's enterprise activities, including water, recycled water, and sewer are also reported on the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's governmental activities include the activities of two separate legal entities, the Milpitas Redevelopment Agency (RDA) and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has three Major Governmental Funds in fiscal 2006 in addition to the General Fund. These are the Housing Reserve Fund, the Redevelopment Project Fund and the Street Improvement Fund, each of which is discussed in detail below.

All three of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds, which in the City's case includes the Housing Reserve Fund only.

Fiduciary Statements

The City is the agent for certain local improvement districts, holding amounts collected from property owners which await transfer to these Districts' bond trustees. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

CITYWIDE FINANCIAL ANALYSIS

The analysis focuses on the net assets and changes in net assets of the City as a whole. Comparisons of the current year's net assets and activities with fiscal 2005 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

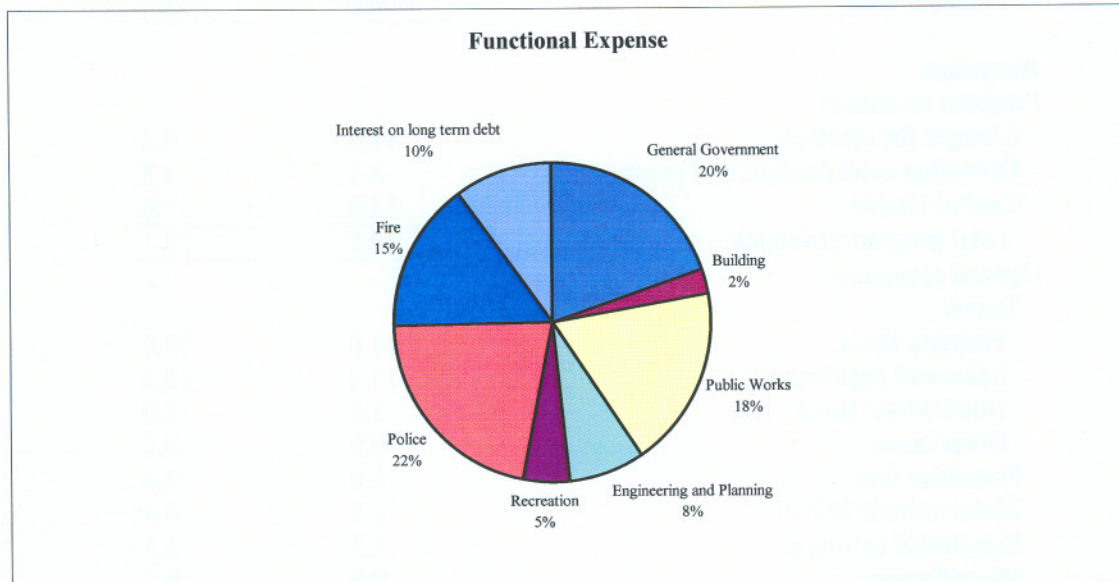
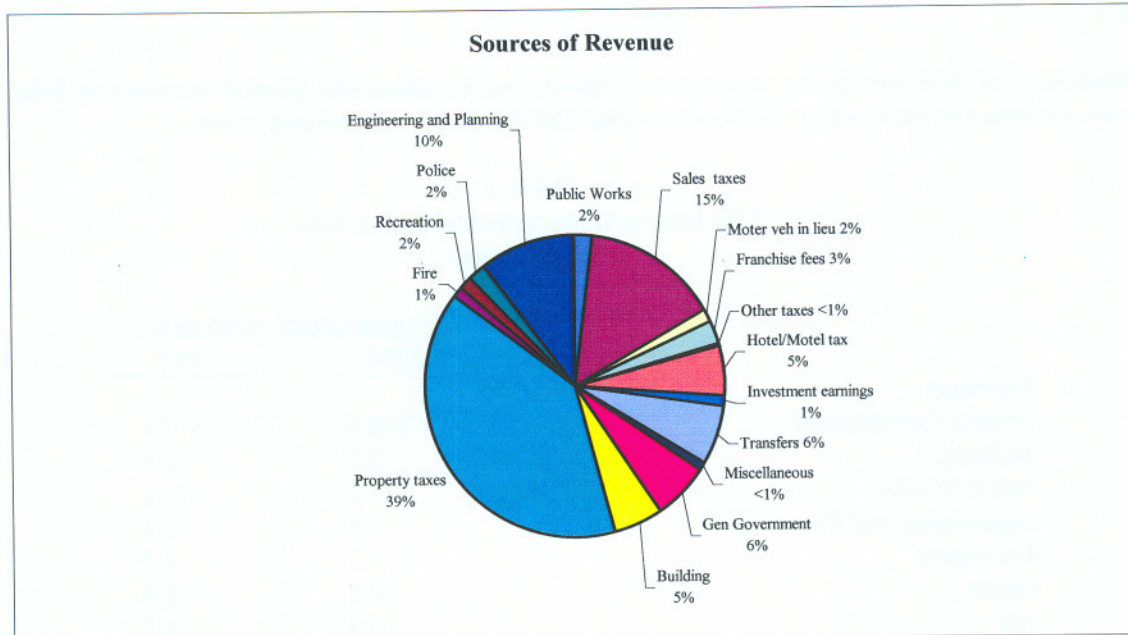
Table 1
Governmental Net Assets at June 30
(in Millions)

	Governmental Activities	
	2006	2005
Cash and investments	\$212.4	\$214.2
Other assets	25.7	42.5
Capital assets	270.0	265.7
Total assets	508.1	522.4
Long-term liabilities	236.3	244.6
Other liabilities	42.7	60.7
Total liabilities	279.0	305.3
Net assets:		
Invested in capital assets, net of related debt	224.2	225.1
Restricted	97.1	(27.0)
Unrestricted	(92.2)	19.0
Total net assets	\$229.1	\$217.1

The City's governmental net assets were \$229.1 million at June 30, 2006, an increase of \$12 million from 2005. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments decreased \$1.8 million principally due to expenditure of bond proceeds for the Midtown Garage and Library capital improvement projects.
- Capital assets increased \$4.3 million from last year, as a result of \$20 million asset additions in fiscal 2006, reduced by \$15.7 million depreciation of the capital assets.
- Long-term liabilities decreased \$8.3 million due to payments on outstanding bonds and Installment Purchase Agreement. The City did not enter into any new long-term debt in FY 2006.
- Other liabilities decreased \$18 million due to fulfillment of the obligation to remit the resale value of a property to the County of Santa Clara under the Installment Purchase Agreement.
- Net assets invested in capital assets net of related debt decreased \$0.9 million primarily due to spending of the Tax Allocation Bond proceeds that funded these capital assets.

Fiscal Year 2006 Government Activities



As the Sources of Revenue Chart above shows, \$41.6 million or 39% of the City's fiscal 2006 governmental activities revenue came from property taxes, while \$15.6 million or 15% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, building permit fees, grants and contributions, franchise fees, hotel/motel taxes, motor vehicle in lieu fees, investment earnings and others.

The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. In fiscal 2006, the City added 19 million in capital assets. The composition of Fiscal 2006's additions is shown in detail at Table 7.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets as summarized below.

Table 2
Changes in Governmental Net Assets
(in Millions)

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Expenses		
General Government	\$18.6	\$17.4
Building	2.2	2.0
Public Works	17.2	17.8
Engineering and Planning	7.4	7.1
Recreation	4.3	4.2
Police	20.5	18.8
Fire	14.4	14.5
Interest on long term debt	9.4	9.3
Total expenses	<u>94.0</u>	<u>91.1</u>
Revenues		
Program revenues:		
Charges for services	12.8	9.3
Operating contributions and grants	4.1	3.8
Capital Grants	13.0	12.0
Total program revenues:	<u>29.9</u>	<u>25.1</u>
General revenues:		
Taxes:		
Property taxes	41.6	35.9
Sales and uses taxes	15.6	13.8
Hotel/Motel taxes	5.8	5.0
Other taxes	0.2	0.1
Franchise fees	2.6	2.8
Motor vehicle in lieu	1.5	0.4
Investment earnings	1.3	1.1
Miscellaneous	0.9	0.3
Total general revenues	<u>69.4</u>	<u>59.4</u>
Total Revenues	<u>99.4</u>	<u>84.5</u>
Surplus (deficiency) before transfers & special item	5.3	(6.6)
Special Item		(102.3)
Transfers	6.6	4.3
Changes in net assets	12.0	(104.6)
Beginning net assets	217.1	321.7
Changes in net assets	<u>\$229.1</u>	<u>\$217.1</u>

Table 2 compares fiscal 2006 expenses and revenues with those of fiscal 2005. Expenses increased \$2.9 million in total in fiscal 2006 due to increased general government administration for midtown developments, addition of a Redevelopment Agency and Economic Development Manager, funding of extended hours for the Library, and increased medical insurance premiums. Police functional expenses went up due to increased sick leave cash outs, vacation accruals and increased depreciation expense for equipment. Other functional expenses were at approximately the same level as fiscal 2005.

Table 2 shows that total government revenues increased \$14.9 million in fiscal 2006. Program revenues and general revenues increased \$4.8 million and \$10.1 million respectively. The biggest contributor to the increase in program revenues was charges for services which increased \$3.5 million in fiscal 2006, due to increased development activities that require plan checks and building permits.

The increase of sales tax revenue by \$1.8 million and hotel/motel tax revenue by \$0.7 million reflect moderate recovery of economic activity in the Silicon Valley last year. The increase of property tax revenue by \$5.7 million reflects increased assessed values of properties that resulted from sales transactions and the addition of residential properties in the Midtown. The increase in property tax revenues was partially offset by contributions to the Education Revenue Augmentation Fund (ERAF) as mandated by the State to help balance the State budget. In fiscal 2006, the City and RDA contributed \$1 million and \$2.4 million respectively. Other increases included repayment of \$1.1 million in motor vehicle in-lieu tax from the State and the sale of a property that the City co-owned with a former employee which returned approximately \$660,000 of the City's contribution.

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, engineering and planning, recreation, police, fire, and interest. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased \$1.9 million primarily due to increased revenue for development services, capital grant received by Information Services Department, and SB90 reimbursements by the State.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2006	2005
General Government	\$(12.2)	\$(12.6)
Building	3.6	0.8
Public Works	(15.1)	(14.6)
Engineering and Planning	3.3	2.3
Recreation	(2.7)	(2.3)
Police	(18.4)	(16.8)
Fire	(13.2)	(13.5)
Interest on long term debt	(9.4)	(9.3)
Totals	\$(64.1)	\$(66.0)

Business-type Activities

Table 4
Business-Type Net Assets at June 30
(in Millions)

	Business-Type Activities	
	2006	2005
Cash and investments	\$26.0	\$28.5
Other assets	2.3	1.9
Capital assets	94.4	88.2
Total assets	122.7	118.6
Other liabilities	2.4	2.5
Total liabilities	2.4	2.5
Net assets:		
Invested in capital assets	94.4	88.2
Restricted	12.9	6.8
Unrestricted	13.0	21.1
Total net assets	\$120.3	\$116.1

The net assets of business-type activities were \$120.3 million in fiscal 2006, a net increase of \$4.2 million from fiscal 2005. Total assets increased \$4.1 million while total liabilities decreased \$0.1 million. The increase in net assets are explained by the \$9.9 million net revenues from the Water, Sewer and Recycled Water Funds offset by the non-operating expenses of \$5.7 million.

Table 5
Changes in Business-Type Net Assets
(in Millions)

	Business-Type Activities	
	2006	2005
Expenses		
Water Utility	\$9.8	\$9.7
Recycled Water Utility	0.3	0.2
Sewer Utility	7.1	6.0
Total expenses	<u>17.2</u>	<u>15.9</u>
Revenues		
Program revenues:		
Charges for services	23.3	21.7
Capital Grants	3.8	0.6
Total program revenues:	<u>27.1</u>	<u>22.3</u>
General revenues:		
Investment earnings	0.9	0.6
Total general revenues	<u>0.9</u>	<u>0.6</u>
Total Revenues	<u>28.0</u>	<u>22.9</u>
Excess before transfers	10.8	7.0
Transfers	<u>(6.6)</u>	<u>(4.3)</u>
Changes in net assets	4.2	2.7
Beginning net assets, restated	116.1	113.4
Changes in net assets	<u>\$120.3</u>	<u>\$116.1</u>

Table 5 compares fiscal 2006 expenses and revenues with those of fiscal year 2005. Expenses increased \$1.3 million in total in fiscal 2006 due to increased operating expense of the Wastewater Treatment Plant for which the City is responsible for its contractual share and increased depreciation expense for utility funds' capital assets. Total program revenue increased by \$4.8 million due to utility rate increases, increased usage by customers and increased capital contributions received from other agencies to fund their share of the construction cost of capital improvement projects. Total general revenue shows an increase of \$0.3 million from last year entirely due to investment earnings. The transfers represent reimbursements for administration costs incurred by the General Fund and the cost of capital assets constructed by other funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

Table 6
Financial Highlights of Governmental Funds at Fund Level at June 30
(in Millions)

	2006	2005
Total assets	\$231.8	\$251.4
Total liabilities	21.9	39.1
Total fund balances	209.9	212.3
Total revenues	97.0	83.6
Total expenditures	105.8	100.5
Total other financing sources	6.4	4.3
Total special item expenditure	0.0	48.0

At June 30, 2006, the City's governmental funds reported combined fund balances of \$209.9 million, a decrease of \$2.4 million from last year. However, the fund balances of the General Fund, Housing Reserve Fund and Street Improvement Fund increased \$1.2 million, \$4.6 and \$0.6 million respectively while the fund balances of the Redevelopment Project Fund, and Other Governmental Funds decreased \$8.5 million, and \$0.3 million respectively.

Revenues at the fund level totaled \$97 million, an increase of \$13.4 million. Revenues for the General Fund, Housing Reserve Fund, Redevelopment Project Fund and Street Improvement Fund increased \$10 million, \$2 million, \$2.4 million and \$1.2 million respectively while Other Governmental Funds declined \$2.2 million.

Expenditures increased \$5.3 million this year to \$105.8 million from last year's \$100.5 million. The expenditures of General Fund, Housing Reserve Fund, and Redevelopment Project Fund increased \$0.5 million, \$2.4 million, and \$6.7 million respectively, but expenditures of Street Improvement Fund and Other Governmental Funds declined \$3.7 million and \$0.6 million respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to \$56.3 million this fiscal year, up \$10 million from the prior fiscal year. Increases came in all revenue categories primarily in sales tax, licenses and permits, and intergovernmental revenues. Property tax revenue increased \$1.4 million due to annual 2% assessed valuation increase and a number of property sales transactions that led to reassessment of those properties. In fiscal 2006, General Fund also contributed approximately \$1 million property tax revenue into the Education Revenue Augmentation Fund to help balance the State budget pursuant to Proposition 1A. Sales tax revenue increased \$2 million due to improved economic activities in this region. Licenses and permits were up \$3 million due to increased development activities, particularly in the Mid-town Redevelopment area that require plan checks and building permits. Intergovernmental revenue increased \$1.3 million due to repayment of \$1.1 million motor vehicle in-lieu tax from the State and resumption of

SB90 mandated cost reimbursements that were previously suspended. Other revenues also increased by approximately \$0.7 million, primarily attributed to sale of a property co-owned by the City with a former employee.

General Fund expenditures increased \$0.5 million due to increased medical insurance premiums, hiring of consultants and temporary employees to help with the increased plan check and building inspection workload, as well as increased sick leave and vacation cash outs due to retirements. These increased costs were partially offset by additional vacancies that occurred throughout the fiscal year. Net transfers into the General Fund decreased \$3.3 million in fiscal 2006 due to \$3 million funding for the Library Garage Capital Improvement Project provided by the General Fund. Compared to the final budget, expenditures were below the final budgeted amount by \$2.7 million. The variances are explained by savings from supplies and discretionary expenditures, and additional vacancies in various functions. The differences between the original budget and final budget were primarily due to increased budget appropriations to provide funding for extended hours of service at the Library, hiring of two temporary dedicated building inspectors, additional consultant services, sick leave and vacation leave cash outs, and litigation expense for a construction lawsuit. These costs were not anticipated at the time of FY 06 budget preparation.

At June 30, 2006, the fund balance of the General Fund was \$29.2 million, of which \$1.3 million was reserved for encumbrances and other items; \$3.4 million was designated for the Library Project, \$6.7 million was designated for employee sick leave and retiree medical benefits, \$5.4 million for stabilization of future PERS rate increases, and \$12.4 million was undesignated.

Housing Reserve

This Fund accounts for Redevelopment Agency activities designed to increase the amount of low and moderate income housing available in the City. In fiscal 2006, the balances of loans to developers increased from \$5.8 million to \$7.3 million, due to new loans provided to first time homebuyers.

Principal payments and in many cases interest payments on the "Silent Second" loan program to assist qualified low-income families to purchase homes in Milpitas are deferred until the property is sold or refinanced, and are not considered revenues until they are received. Principal and interest on loans to non-profit developers of such properties typically are at below-market rates and payments are deferred for considerable periods of years to assist these non-profit organizations in their efforts to develop affordable housing. All these loans are secured by deeds of trust on the underlying property, and if the facilities constructed with these loans are not used for the purposes intended, the loans become due and payable immediately.

Revenues increased to \$2.6 million in fiscal 2006, from \$0.6 million in fiscal 2005, due to contributions by developers to support affordable housing pursuant to their development agreements. The net transfers of \$4.7 million from the Redevelopment Project Fund comprised of \$5.8 million tax increment revenue for the 20% set-aside housing reserve requirement, offset by the Housing Reserve Fund's share of the administrative costs and debt service payments.

The Fund's fiscal year end fund balance of \$26.8 million is available only to fund future low and moderate-income program expenditures.

Redevelopment Project

This Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas. The Fund's revenues were \$29.5 million in fiscal 2006, an increase of \$2.4 million from fiscal 2005. Property tax increment revenues increased by \$3.4 million in fiscal 2006, primarily due to increased assessed valuation for new residential and commercial developments and the annual 2% assessed valuation increase as permitted by Proposition 13. As mandated by the State, the Agency contributed \$2.4 million from fiscal 2006 tax increment revenues to ERAF. In fiscal 2005, the contribution to ERAF was \$3 million. Revenue from the use of assets decreased \$0.5 million due to draw downs of bond proceeds.

Fund expenditures were \$31.1 million in fiscal 2006, an increase of \$6.7 million. Interest and principal payments totaling \$16.7 million which include \$12.7 million debt service payments for the 2003 Tax Allocation Bonds and \$4 million installment payment pursuant to a Purchase and Sale Agreement with the County of Santa Clara. Fund expenditures also included capital improvement project expenditures of \$13 million, an increase of \$5 million over prior year.

The Fund's fiscal year end fund balance of \$127.6 million may be used only for redevelopment purposes. Of this amount, \$0.1 million was reserved for outstanding encumbrances and prepaids, \$7.0 million was reserved for property held for resale or redevelopment, \$90.5 million was designated for committed capital projects and \$30 million was undesignated.

Street Improvement Capital Project

This Capital Project Fund accounts for majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were \$4 million in fiscal 2006, an increase of \$1.2 million from fiscal 2005. The increase was attributed to \$0.1 million increase in Intergovernmental revenues and \$1.1 million increase in developer contributions.

Fund expenditures were \$3.3 million in fiscal 2006, a decrease of \$3.8 million from fiscal 2005, primarily due to decreased capital outlay.

The fund ended fiscal 2006 with \$11.1 million in fund balance, of which \$0.2 million was reserved for encumbrances outstanding, \$6.7 million was designated for capital projects and \$4.2 million was undesignated.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$1.6 million from last year, while operating expenses increased \$1.3 million. Total revenues and total operating expenses were \$23.3 million and \$17.2 million respectively. Non-operating revenues of \$1 million in fiscal 2006 were \$0.2 million lower than the prior year primarily due to reduced subvention and grants received from other agencies. Developer contributions to the proprietary funds increased \$3.7 million in fiscal 2006. Transfers in to Business-type Activities decreased \$0.7 million in fiscal 2006, while transfers to Government-type Activities were \$1.6 million more than the prior year.

Water Utility

Water fund revenues were \$13.2 million in fiscal 2006, up \$0.8 million from the prior year. The increase in revenues is primarily due to a rate increase implemented at the beginning of the fiscal year. Expenses were \$9.8 million in fiscal 2006, up \$0.2 million from the prior year due to increased personnel and consultant services costs. Net assets of the Water Utility Fund increased \$0.4 million in the current year to a total of \$48.4 million. The increase comprised \$3.4 million in operating income for the current year, \$0.2 million in non-operating revenues, offset by net transfers out of \$3.2 million. Transfers in of \$0.4 million represent reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the other enterprise funds. Transfers out of \$4.1 million were for reimbursements of administration costs incurred by the General Fund, reimbursements for the cost of capital assets constructed by the Redevelopment Agency Fund, and return of unused capital project funds.

This Fund's Net Assets includes \$41 million invested in capital assets, \$2.3 million in restricted net assets, and \$5.1 million in unrestricted net assets.

Recycled Water Utility

Recycled Water fund revenues were \$1.1 million in fiscal 2006, up \$0.1 million from the prior year. Expenses were \$0.3 million in fiscal 2006, at the same level as last fiscal year. Net assets of the Fund increased \$0.4 million in the current year to a total of \$2.4 million. This increase included \$0.8 million in operating income and \$0.1 million in non-operating income, offset by transfers out totaling \$0.5 million. Transfers out are primarily reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the Recycled Water Fund.

This Fund's Net Assets includes \$0.4 million invested in capital assets and \$2 million in unrestricted net assets, with a small amount of restricted net assets.

Sewer Utility

Sewer fund revenues were \$8.9 million in fiscal 2006, up \$0.7 million from the prior year due to a rate increase implemented at the beginning of the fiscal year. Expenses were \$7 million in fiscal 2006, up \$1 million from the prior year due to increased expenses in purchased sewer capacity and increased depreciation expense for capacity rights. Non-operating revenues in fiscal year 2006 consists of \$0.6 million interest income. Net assets of the Sewer Utility Fund increased \$3.4 million in the current year to a total of \$69.4 million. This increase comprised of \$1.9 million in operating income, \$0.6 million in non-operating revenues, \$3.3 million in capital contributions by developers, offset by net transfers out totaling \$2.4 million. Transfers in of \$0.2 million represent reimbursements for the cost of capital assets constructed by the Sewer Enterprise Fund for other funds. Transfers out of \$2.6 million represent reimbursements for administration costs incurred by the General Fund, reimbursements for the cost of capital assets constructed by the Redevelopment Agency Fund, and return of unused capital project funds.

\$5.9 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, \$53 million was invested in capital assets and \$10.5 million was restricted as to use.

CAPITAL ASSETS

The City has recorded the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2006 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7
Capital Assets at Year-end
(in Millions)

	2006	2005
<i>Governmental Activities:</i>		
Land	\$35.0	\$32.9
Construction in progress	34.8	22.6
Buildings and improvements	92.6	90.7
Other improvements	20.3	20.3
Machinery and equipment	19.4	19.3
Landscape system	29.6	29.6
Storm system	72.6	72.6
Street system	202.0	200.1
Traffic system	15.5	14.6
Less accumulated depreciation	(251.8)	(237.1)
Totals	\$270.0	\$265.6
<i>Business-type Activities:</i>		
Land	\$1.1	\$1.1
Construction in progress	8.6	16.3
Distribution facilities	67.3	67.3
Service lines	7.7	5.8
Sewer lines	57.9	50.2
Capacity rights	30.2	22.7
Less accumulated depreciation	(78.4)	(75.2)
Totals	\$94.4	\$88.2

The principal additions in fiscal 2006 were construction in progress and capacity rights. Most of construction-in-progress were expenditures on Midtown infrastructure projects and Library related projects. Other additions included street system, and additional sewer capacity rights purchased in fiscal 2006. Further detail on capital assets, current year additions and construction-in-progress can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8.

DEBT ADMINISTRATION

Substantially all of the City's debt was issued to finance redevelopment projects and technological capital outlays. These debt issues are secured by the property tax increment revenue of the Redevelopment Agency and lease payments of the General Fund. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2006 the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

Governmental Activity Debt:	Balance June 30, 2006	Balance June 30, 2005
Redevelopment Agency 2003 Tax Allocation Bonds 2% - 5.25%, due September 1, 2032	\$190.8	\$194.4
Technology Certificates of Participation, Series 2000 4% - 4.25%, due November 1, 2008	3.5	4.6
Installment Purchase Agreement with the County Of Santa Clara, due June 30, 2023	50.5	54.3
Total Governmental Activity Debt	\$244.8	\$253.3

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2006, a total of \$28.5 million in local improvement district debt was outstanding, issued by four local improvement districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479.

CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	\$125,429,450	\$25,993,184	\$151,422,634	\$27,844
Restricted investments (Note 3)	86,962,542		86,962,542	951,619
Receivables:				
Accounts	2,120,628	1,661,355	3,781,983	4,160
Due from other governments	3,451,445		3,451,445	
Interest	2,367,704	323,765	2,691,469	
Loans receivable (Note 5)	9,852,389		9,852,389	
Prepays, materials, supplies and deposits	916,263	261,994	1,178,257	30,807
Property held for resale (Note 6)	6,988,800		6,988,800	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	69,857,365	9,765,055	79,622,420	1,565,277
Depreciable capital assets, net	200,144,417	84,701,891	284,846,308	7,888,361
Total assets	508,091,003	122,707,244	630,798,247	10,468,068
LIABILITIES				
Accounts payable	5,195,909	1,221,225	6,417,134	61,650
Accrued payroll	1,600,228		1,600,228	26,698
Interest payable	3,009,268		3,009,268	
Uninsured claims payable (Note 13)	4,033,114	50,000	4,083,114	
Refundable deposits	1,175,386	111,711	1,287,097	74,731
Advance from other governments (Note 8E)		729,309	729,309	
Unearned revenue	158,149		158,149	55
Accrued vacation (Note 12):				
Due within one year	1,257,738		1,257,738	
Due in more than one year	3,057,422	129,657	3,187,079	
Sick leave payable (Note 12):				
Due within one year	854,656		854,656	
Due in more than one year	4,231,720	166,291	4,398,011	
Retiree medical benefits (Note 12):				
Due within one year	646,518		646,518	
Due in more than one year	8,995,393		8,995,393	
Long term debt (Note 9):				
Due within one year	8,508,118		8,508,118	
Due in more than one year	236,283,094		236,283,094	
Total liabilities	279,006,713	2,408,193	281,414,906	163,134
NET ASSETS (Note 10)				
Invested in capital assets and capacity rights, net of related debt	224,223,446	94,466,946	318,690,392	
Restricted for:				
Capital projects	21,598,457	12,852,186	34,450,643	
Redevelopment and community development activities	75,471,000		75,471,000	
Total restricted net assets	97,069,457	12,852,186	109,921,643	
Unrestricted	(92,208,613)	12,979,919	(79,228,694)	10,304,934
Total net assets	\$229,084,290	\$120,299,051	\$349,383,341	\$10,304,934

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$18,650,748	\$580,379	\$1,169,425	\$4,691,862	(\$12,209,082)	
Building	2,195,063	5,799,623			3,604,560	
Public Works	17,156,452	344,026	48,569	1,644,066	(15,119,791)	
Engineering and Planning	7,453,156	2,412,165	1,769,191	6,634,710	3,362,910	
Recreation	4,265,682	1,495,580	102,729		(2,667,373)	
Police	20,472,656	1,132,213	879,443		(18,461,000)	
Fire	14,380,713	1,069,531	119,831		(13,191,351)	
Interest on long term debt	9,383,882				(9,383,882)	
Total Governmental Activities	93,958,352	12,833,517	4,089,188	12,970,638	(64,065,009)	
Business-type Activities:						
Water Utility	9,836,770	13,224,233		509,261		\$3,896,724
Recycled Water Utility	328,373	1,086,108		52,989		810,724
Sewer Utility	7,046,551	8,966,260		3,291,235		5,210,944
Total Business-type Activities	17,211,694	23,276,601		3,853,485		9,918,392
Total Primary Government	\$111,170,046	\$36,110,118	\$4,089,188	\$16,824,123	(64,065,009)	9,918,392
Component Unit:						
Terrace Gardens Inc.	\$1,450,305	\$1,292,170				
General revenues:						
Taxes:						
Property taxes					44,026,089	
Less: Educational Revenue Augmentation						
Fund payment (Note 16)					(2,421,926)	
Sales and use taxes					15,613,115	
Hotel/Motel taxes					5,669,231	
Other taxes					133,339	
Franchise fees					2,643,392	
Motor vehicle in lieu					1,548,080	
Investment earnings					1,301,762	923,759
Miscellaneous					867,558	
Transfers (Note 4)					6,633,207	(6,633,207)
Total general revenues and transfers					76,013,847	(5,709,448)
Change in Net Assets					11,948,838	4,208,944
Net Assets-Beginning, as Restated (Note 8E)					217,135,452	116,090,107
Net assets-Ending					\$229,084,290	\$120,299,051

See accompanying notes to financial statements

	Net (Expense) Revenue and Changes in Net Assets Component Unit Terrace Gardens Inc.
<u>Total</u>	
(\$12,209,082)	
3,604,560	
(15,119,791)	
3,362,910	
(2,667,373)	
(18,461,000)	
(13,191,351)	
<u>(9,383,882)</u>	
<u>(64,065,009)</u>	
3,896,724	
810,724	
<u>5,210,944</u>	
<u>9,918,392</u>	
<u>(54,146,617)</u>	
	<u>(\$158,135)</u>
44,026,089	
(2,421,926)	
15,613,115	
5,669,231	
133,339	
2,643,392	
1,548,080	
2,225,521	18,738
867,558	
<u>70,304,399</u>	<u>18,738</u>
16,157,782	(139,397)
<u>333,225,559</u>	<u>10,444,331</u>
<u>\$349,383,341</u>	<u>\$10,304,934</u>



CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments available for operations (Note 3)	\$34,906,504	\$20,281,438	\$41,128,102	\$10,660,115	\$12,393,762	\$119,369,921
Restricted investments (Note 3)		6,334,337	80,503,265		124,940	86,962,542
Receivables:						
Accounts	1,575,758	35,807		483,573	25,490	2,120,628
Due from other governments	1,754,577		83,892	1,102,638	510,338	3,451,445
Interest	519,371	324,669	1,202,658	116,553	132,002	2,295,253
Loans receivable (Note 5)		7,273,190			2,579,199	9,852,389
Prepays, materials, supplies and deposits	563,457	108	57,066	184,621	2,709	807,961
Property held for resale (Note 6)			6,988,800			6,988,800
Total Assets	\$39,319,667	\$34,249,549	\$129,963,783	\$12,547,500	\$15,768,440	\$231,848,939
LIABILITIES						
Accounts payable	\$1,450,159	\$156,999	\$2,331,727	\$607,816	\$348,268	\$4,894,969
Accrued payroll	1,600,228					1,600,228
Uninsured claims payable (Note 13)	2,973,217					2,973,217
Refundable deposits	1,156,374				18,843	1,175,217
Deferred revenue	130,641	7,273,190		827,260	370,591	8,601,682
Accrued vacation (Note 12)	1,237,072					1,237,072
Sick leave payable (Note 12)	844,515					844,515
Retiree medical benefits (Note 12)	646,518					646,518
Total Liabilities	10,038,724	7,430,189	2,331,727	1,435,076	737,702	21,973,418
FUND BALANCES						
Fund balances (Note 10)						
Reserved for:						
Encumbrances	752,018		88,836	2,410	88,690	931,954
Loans					2,579,199	2,579,199
Prepays, materials, supplies and deposits	563,457	108	57,066	184,621	2,709	807,961
Property held for resale			6,988,800			6,988,800
Low and moderate income housing		26,819,252				26,819,252
Unreserved, designated for:						
Long-term portion of:						
Sick leave payable	2,627,171			14,793		2,641,964
Retiree medical benefits	4,140,884					4,140,884
PERS stabilization	5,432,703					5,432,703
Library project	3,373,429					3,373,429
Projects, reported in Capital Projects Funds			90,475,025	6,693,903	4,105,985	101,274,913
Unreserved, undesignated						
Reported in:						
General Fund	12,391,281					12,391,281
Special Revenue Funds					3,524,304	3,524,304
Capital Projects Funds			30,022,329	4,216,697	4,729,851	38,968,877
TOTAL FUND BALANCES	29,280,943	26,819,360	127,632,056	11,112,424	15,030,738	209,875,521
Total Liabilities and Fund Balances	\$39,319,667	\$34,249,549	\$129,963,783	\$12,547,500	\$15,768,440	
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:						
CAPITAL ASSETS						
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.						270,001,782
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS						
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Assets.						5,908,366
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES						
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.						8,443,533
LONG TERM ASSETS AND LIABILITIES						
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:						
Long-term debt						(244,791,212)
Interest payable						(3,009,268)
Non-current portion of accrued vacation, sick leave and retiree medical benefits						(16,284,535)
Non-current portion of uninsured claims payable						(1,059,897)
NET ASSETS OF GOVERNMENTAL ACTIVITIES						\$229,084,290

See accompanying notes to financial statements

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$14,548,284		\$28,606,441			\$43,154,725
Less: Educational Revenue						
Augmentation Fund payment (Note 16)			(2,421,926)			(2,421,926)
Sales taxes	16,227,888					16,227,888
Other taxes	9,595,542				\$407,375	10,002,917
Licenses and fines	7,356,180				400	7,356,580
Interest and others	1,296,624	\$855,525	3,317,749	\$344,754	445,085	6,259,737
Intergovernmental	2,288,888		30,000	1,198,620	2,527,817	6,045,325
Charges for services	4,128,811				35,935	4,164,746
Developer contributions		1,750,000		2,539,166	721,216	5,010,382
Other	867,197		24,689	1,447	293,106	1,186,439
Total Revenues	56,309,414	2,605,525	29,556,953	4,083,987	4,430,934	96,986,813
EXPENDITURES						
Current:						
General Government	12,062,227	2,768,971	293,721	374,929	109,030	15,608,878
Building	2,225,643					2,225,643
Public Works	7,566,916			38,331	183,457	7,788,704
Engineering and Planning	4,019,740		1,026,491	605,241	929,637	6,581,109
Recreation	4,284,286					4,284,286
Police	19,930,850				236,022	20,166,872
Fire	14,312,036					14,312,036
Capital outlay			13,088,890	2,338,231	1,433,535	16,860,656
Debt service:						
Principal	1,090,000		7,469,524			8,559,524
Interest and fees	170,929		9,253,022			9,423,951
Total Expenditures	65,662,627	2,768,971	31,131,648	3,356,732	2,891,681	105,811,659
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,353,213)	(163,446)	(1,574,695)	727,255	1,539,253	(8,824,846)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	14,291,506	5,867,736	6,462,164	1,225,000	676,399	28,522,805
Transfers (out) (Note 4)	(3,700,000)	(1,127,169)	(13,327,429)	(1,371,850)	(2,547,724)	(22,074,172)
Total Other Financing Sources (Uses)	10,591,506	4,740,567	(6,865,265)	(146,850)	(1,871,325)	6,448,633
NET CHANGE IN FUND BALANCES	1,238,293	4,577,121	(8,439,960)	580,405	(332,072)	(2,376,213)
Fund balances at beginning of period	28,042,650	22,242,239	136,072,016	10,532,019	15,362,810	212,251,734
FUND BALANCES AT END OF PERIOD	\$29,280,943	\$26,819,360	\$127,632,056	\$11,112,424	\$15,030,738	\$209,875,521

See accompanying notes to financial statements

CITY OF MILPITAS
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	(\$2,376,213)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	
(Internal service fund additions of \$1,001,438 have already been added to capital assets)	16,860,656
Donated assets from developers	2,181,538
Depreciation expense is deducted from the fund balance	
(Depreciation expense is net of internal service fund depreciation of \$996,096 which has already been allocated to serviced funds.)	(14,677,154)

LONG TERM DEBT PAYMENTS

Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of principal is added back to fund balance	8,559,524

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Non-current portion of accrued vacation, sick leave and retiree medical benefits	(1,082,754)
Non-current portion of uninsured claims payable	727,028
Interest payable	40,069
Deferred revenue	1,227,152

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.	
The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	488,992

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$11,948,838
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See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$13,666,600	\$13,666,600	\$14,548,284	\$881,684
Sales taxes	15,562,977	15,562,977	16,227,888	664,911
Other taxes	8,935,250	8,935,250	9,595,542	660,292
Licenses and fines	3,779,000	3,912,932	7,356,180	3,443,248
Interest and other	1,423,000	1,423,000	1,296,624	(126,376)
Intergovernmental	837,000	1,086,365	2,288,888	1,202,523
Charges for services	3,068,963	3,341,540	4,128,811	787,271
Other	52,000	67,484	867,197	799,713
Total Revenues	47,324,790	47,996,148	56,309,414	8,313,266
Expenditures				
Current:				
Policy, Planning and Implementation	5,972,524	6,950,658	6,633,177	317,481
City Attorney	816,185	1,516,185	1,392,160	124,025
Finance	2,705,629	2,705,629	2,605,929	99,700
Public Works	8,381,610	8,270,223	7,652,583	617,640
Planning, Recreation and Neighborhood Services	6,931,408	6,589,506	6,084,953	504,553
Police	20,651,047	20,681,619	19,955,423	726,196
Fire	14,425,894	14,413,573	14,392,947	20,626
Information Services	2,479,412	2,529,662	2,529,631	31
Human Resources	1,367,948	1,216,794	978,734	238,060
Non-departmental	1,446,155	2,958,106	2,908,933	49,173
Debt service:				
Principal	1,090,000	1,090,000	1,090,000	
Interest and fees	170,929	170,929	170,929	
Total Expenditures	66,438,741	69,092,884	66,395,399	2,697,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,113,951)	(21,096,736)	(10,085,985)	11,010,751
OTHER FINANCING SOURCES (USES)				
Transfers in	19,689,892	20,389,892	14,291,506	(6,098,386)
Transfers (out)		(3,700,000)	(3,700,000)	
Total Other Financing Sources (Uses)	19,689,892	16,689,892	10,591,506	(6,098,386)
Net change in fund balance	\$575,941	(\$4,406,844)	505,521	\$4,912,365
Adjustment to budgetary basis:				
Encumbrance expenditures			732,772	
Budgetary fund balance, July 1			28,042,650	
Budgetary fund balance, June 30			\$29,280,943	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Interest and others	\$506,000	\$506,000	\$855,525	\$349,525
Developer contribution			1,750,000	1,750,000
Other	35,800	35,800		(35,800)
Total Revenues	541,800	541,800	2,605,525	2,063,725
Expenditures				
Current:				
General Government	87,423	87,423	86,900	523
Planning, Recreation and Neighborhood Services	23,000	23,000		23,000
Non-departmental		4,101,770	4,101,768	2
Total Expenditures	110,423	4,212,193	4,188,668	23,525
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	431,377	(3,670,393)	(1,583,143)	2,087,250
OTHER FINANCING SOURCES (USES)				
Transfers in	5,325,400	5,325,400	5,867,736	542,336
Transfers (out)	(764,576)	(764,576)	(1,127,169)	(362,593)
Total Other Financing Sources (Uses)	4,560,824	4,560,824	4,740,567	179,743
Net change in fund balance	\$4,992,201	\$890,431	3,157,424	\$2,266,993
Adjustment to budgetary basis:				
Encumbrance expenditures			1,419,697	
Budgetary fund balance, July 1			22,242,239	
Budgetary fund balance, June 30			\$26,819,360	

See accompanying notes to financial statements



CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
ASSETS					
Current Assets					
Cash and investments available for operations (Note 3)	\$7,259,260	\$2,052,116	\$16,681,808	\$25,993,184	\$6,059,529
Receivables:					
Accounts	974,334	42,633	644,388	1,661,355	
Due from other funds (Note 4B)			74,282	74,282	
Interest	96,289	24,990	202,486	323,765	72,451
Prepays, materials, supplies and deposits	253,326	323	8,345	261,994	108,302
Total current assets	8,583,209	2,120,062	17,611,309	28,314,580	6,240,282
Noncurrent assets:					
Capital assets and capacity rights (Note 8):					
Land and construction in progress	5,858,546		3,906,509	9,765,055	
Depreciable capital assets, net	35,237,304	331,654	49,132,933	84,701,891	4,473,058
Total noncurrent assets	41,095,850	331,654	53,039,442	94,466,946	4,473,058
Total assets	49,679,059	2,451,716	70,650,751	122,781,526	10,713,340
LIABILITIES					
Current liabilities:					
Accounts payable	903,114	2,587	315,524	1,221,225	300,940
Due to other funds (Note 4B)	74,282			74,282	
Uninsured claims payable (Note 13)			50,000	50,000	
Refundable deposits	58,500	53,211		111,711	169
Accrued vacation (Note 12)					20,666
Sick leave payable (Note 12)					10,141
Total current liabilities	1,035,896	55,798	365,524	1,457,218	331,916
Non-current liabilities:					
Advances from other governments (Note 8E)			729,309	729,309	
Accrued vacation (Note 12)	70,693		58,964	129,657	
Sick leave payable (Note 12)	115,928		50,363	166,291	
Total non-current liabilities	186,621		838,636	1,025,257	
Total liabilities	1,222,517	55,798	1,204,160	2,482,475	331,916
NET ASSETS					
Invested in capital assets and capacity rights	41,095,850	331,654	53,039,442	94,466,946	4,473,058
Restricted for capital projects	2,291,144	60,618	10,500,424	12,852,186	
Unrestricted	5,069,548	2,003,646	5,906,725	12,979,919	5,908,366
Total net assets	\$48,456,542	\$2,395,918	\$69,446,591	\$120,299,051	\$10,381,424

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
OPERATING REVENUES					
Charges for services	\$13,070,833	\$1,077,288	\$8,905,500	\$23,053,621	\$2,508,922
Other operating revenue	153,400	8,820	60,760	222,980	
Total Operating Revenues	13,224,233	1,086,108	8,966,260	23,276,601	2,508,922
OPERATING EXPENSES					
Purchased water	5,622,972	235,033		5,858,005	
Purchased sewer capacity			3,309,721	3,309,721	
Personnel services	1,771,119	55,251	1,157,110	2,983,480	1,404,191
Services and supplies	934,075	14,578	576,185	1,524,838	59,273
Depreciation	1,298,775	20,217	1,858,480	3,177,472	996,096
Repairs and maintenance	209,829	3,294	145,055	358,178	289,783
Total Operating Expenses	9,836,770	328,373	7,046,551	17,211,694	2,749,343
Operating Income (Loss)	3,387,463	757,735	1,919,709	6,064,907	(240,421)
NONOPERATING REVENUES					
Interest income	228,442	63,285	632,032	923,759	154,820
Subventions and grants		52,989	9	52,998	
Gain on sale of assets					11,660
Total Nonoperating Revenues	228,442	116,274	632,041	976,757	166,480
Income (Loss) Before Contributions and Transfers	3,615,905	874,009	2,551,750	7,041,664	(73,941)
Capital contributions			2,466,500	2,466,500	378,359
Capital contributions - connection fees	509,261		824,726	1,333,987	
Transfers in (Note 4)	440,000		193,961	633,961	200,000
Transfers (out) (Note 4)	(4,180,852)	(494,142)	(2,592,174)	(7,267,168)	(15,426)
Change in net assets	384,314	379,867	3,444,763	4,208,944	488,992
Total net assets-beginning, as restated (Note 8E)	48,072,228	2,016,051	66,001,828	116,090,107	9,892,432
Total net assets-ending	\$48,456,542	\$2,395,918	\$69,446,591	\$120,299,051	\$10,381,424

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$13,119,541	\$1,094,223	\$8,921,454	\$23,135,218	\$2,512,246
Payments to suppliers	(6,717,276)	(250,328)	(4,048,502)	(11,016,106)	(121,556)
Payments to employees	(1,913,491)	(56,779)	(1,231,645)	(3,201,915)	(1,430,992)
Net cash provided by operating activities	4,488,774	787,116	3,641,307	8,917,197	959,698
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances to other funds			74,282	74,282	
Advances from other funds	(74,282)			(74,282)	
Transfers in	440,000		193,961	633,961	200,000
Transfers (out)	(4,180,852)	(494,142)	(2,592,174)	(7,267,168)	(15,426)
Cash Flows from Noncapital Financing Activities	(3,815,134)	(494,142)	(2,323,931)	(6,633,207)	184,574
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Proceeds from sale of capital assets					11,660
Acquisition of capital assets	(793,907)		(8,659,298)	(9,453,205)	(601,252)
Capital contributions			2,466,500	2,466,500	
Capital contributions - connection fees	509,261		824,726	1,333,987	
Subventions and grants		52,989	9	52,998	
Advances from other governments			(18,098)	(18,098)	
Cash Flows from Capital and Related Financing Activities	(284,646)	52,989	(5,386,161)	(5,617,818)	(589,592)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	185,459	49,975	609,583	845,017	82,369
Cash Flows from Investing Activities	185,459	49,975	609,583	845,017	82,369
Net increase (decrease) in cash and cash equivalents	574,453	395,938	(3,459,202)	(2,488,811)	637,049
Cash and investments at beginning of period	6,684,807	1,656,178	20,141,010	28,481,995	5,422,480
Cash and investments at end of period	\$7,259,260	\$2,052,116	\$16,681,808	\$25,993,184	\$6,059,529
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$3,387,463	\$757,735	\$1,919,709	\$6,064,907	(\$240,421)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,298,775	20,217	1,858,480	3,177,472	996,096
Change in assets and liabilities:					
Receivables, net	(125,192)	(2,896)	(44,806)	(172,894)	3,324
Materials, supplies and deposits	(26,056)	(10)	(1,716)	(27,782)	(7,391)
Accounts and other payables	(46,216)	12,070	(90,360)	(124,506)	208,090
Net cash provided by operating activities	\$4,488,774	\$787,116	\$3,641,307	\$8,917,197	\$959,698
NONCASH TRANSACTIONS:					
Contributions and transfers of fixed assets, net					\$378,359
Retirement of capital assets, net					\$21,827

See accompanying notes to financial statements



CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 3)	\$7,964,151
Accounts receivable	3,319
Due from other governments	32,797
Interest receivable	<u>28,765</u>
Total Assets	<u><u>\$8,029,032</u></u>
LIABILITIES	
Refundable deposits	\$670,208
Due to Local Improvement Districts	<u>7,358,824</u>
Total Liabilities	<u><u>\$8,029,032</u></u>

See accompanying notes to financial statements



CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety, police, fire and building inspection; parks and streets; water; sanitation; recreation services; planning and zoning; general administration services, and redevelopment.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

PRIMARY GOVERNMENT

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Redevelopment Agency and the Milpitas Public Financing Authority, both of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

Blended Component Units

The Milpitas Redevelopment Agency is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency are included in the Housing Reserve Special Revenue Fund and the Redevelopment Project Capital Projects.

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City, principally the Redevelopment Project Area. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. During fiscal year 2006, there were no financial activities to report.

Financial statements for the Milpitas Redevelopment Agency and Milpitas Public Financing Authority may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. During fiscal year 2005 the City Council began to exercise control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2005 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Assets and the Statement of Activities.

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government, the City and its blended and discretely presented component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, most street work and the other services described above.

Housing Reserve Fund – Established by the Redevelopment Agency of the City of Milpitas to account for tax allocations set aside for the purpose of increasing or improving the City's supply of low or moderate – income housing.

Redevelopment Project Fund – Established to account for the financing and construction activities in the redevelopment project areas.

Street Improvement Fund – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund – Accounts for the provision of water services to residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Recycled Water Utility Fund - Accounts for the provision of recycled water services to businesses within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Sewer Utility Fund – Accounts for the provision of sewer services to residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

The City also reports the following fund types:

Internal Service Fund – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments on a cost reimbursement basis.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes and interest revenue. Forfeitures, licenses, permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as deferred revenue.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with Government Accounting Standards Board pronouncements.

E. Materials and Supplies

Supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations and are expensed as consumed. Inventories of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expenditure in the funds at the time individual inventory items are consumed. Reported governmental fund inventories are equally offset by fund balance reserves which indicate that they do not constitute available spendable resources even though they are a component of net current assets.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *Property Tax*

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. *Revenue Recognition for Water Utility, Recycled Water Utility and Sewer Utility*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

H. *New Fund*

The Public Art Special Revenue Fund was established as of July 1, 2005.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager may approve supplemental appropriations in all funds providing the total increase does not exceed 1% of the original total General Fund budget. All additional appropriations must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level without City Council approval.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

B. *Adjustments to GAAP Basis from Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Restricted Cash and Investments -Time certificates of deposit are restricted as to use by agreements that name other parties as beneficiaries and that require the interest on certain certificates to be credited to the parties who provided the funds. None of these certificates may be redeemed until the City has met the terms of its agreements with these parties; on redemption the proceeds of certain certificates must be paid by the City to the beneficiary parties.

Other restricted cash and investments may be used only for capital projects by the Redevelopment Agency.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for operations	\$151,422,634
Restricted investments	86,962,542
Total Primary Government cash and investments	<u>238,385,176</u>
Cash and investments available for operations	27,844
Restricted investments	951,619
Total Component Unit cash and investments	<u>979,463</u>
Cash and investments	
in Fiduciary Funds (separate statement)	<u>7,964,151</u>
Total cash and investments	<u><u>\$247,328,790</u></u>

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$40,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	\$5 million or 10%
Commercial Paper	270 Days	A1/P1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		No Limit	No Limit

- (A) Eligible Commercial Paper and Medium Term Corporate Notes combined may not represent more than 10% of the outstanding paper of an issuing corporation.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$40,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%

(A) The combined total of commercial paper and medium term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

E. Investments Authorized for Terrace Gardens Inc.

Terrace Gardens, Inc. investments conform with the California Government Code.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
<i>City:</i>					
U.S. Government Agency Issues	\$60,296,869	\$32,950,424	\$1,921,875	\$92,237	\$95,261,405
Corporate Notes	999,873	7,859,709	8,821,301		17,680,883
U.S. Treasury Notes	15,802,813	5,907,500			21,710,313
California Local Agency Investment Fund	34,462,306				34,462,306
Mutual Funds (U.S. Securities)	1,554,780				1,554,780
Investment Repurchase Agreement		75,743,163			75,743,163
<i>Terrace Gardens, Inc.:</i>					
Certificates of Deposit	756,714				756,714
Total Investments	<u>\$113,873,355</u>	<u>\$122,460,796</u>	<u>\$10,743,176</u>	<u>\$92,237</u>	247,169,564
<i>Demand Deposits (Overdraft)-City of Milpitas</i>					(63,523)
<i>Demand Deposits - Terrace Gardens</i>					222,749
Total Cash and Investments					<u>\$247,328,790</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2006 these investments matured in an average of 152 days.

Mutual funds are available for withdrawal on demand and at June 30, 2006 matured in an average of 3 days.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA+/AA/AA-	Total
U.S. Government Agency Issues	\$95,261,405		\$95,261,405
Corporate Notes	5,844,429	\$11,836,454	17,680,883
Mutual Funds (U.S. Securities)	1,554,780		1,554,780
Investment Repurchase Agreement		75,743,163	75,743,163
Totals	<u>\$102,660,614</u>	<u>\$87,579,617</u>	<u>190,240,231</u>
<i>Not rated:</i>			
California Local Agency Investment Fund			34,462,306
<i>Exempt from credit rate disclosure:</i>			
U.S. Treasury Notes			<u>21,710,313</u>
Total Investments			<u>\$246,412,850</u>

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2006, all of Terrace Gardens' Time Certificate of Deposits were fully insured by Federal Deposit Insurance.

H. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal agency securities	\$21,188,855
Federal Home Loan Bank	Federal agency securities	43,266,875
Federal Farm Credit Bank	Federal agency securities	17,972,626
Citigroup Global Markets Inc.	Investment repurchase agreement	75,743,163

Investments in the securities of any individual issuers that represent 5% or more of total investments by individual funds were as follows at June 30, 2006:

Fund	Issuer	Investment Type	Amount
Major Fund:			
Redevelopment Project Fund	Citigroup Global Markets Inc.	Investment repurchase agreement	\$75,743,163
Fiduciary Funds	Federal Home Loan Bank	Federal agency securities	3,533,375

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Housing Reserve Special Revenue Fund	\$764,576 (A)
	Redevelopment Project Capital Projects Fund	7,074,333 (A)
	Street Improvement Capital Projects Fund	1,000,000 (A)
	Water Utility Enterprise Fund	3,114,201 (A)
	Recycled Water Utility Enterprise Fund	54,142 (A)
	Sewer Utility Enterprise Fund	2,262,174 (A)
	Solid Waste Reduction and Services Special Revenue Fund	20,466 (A)
	General Government Project Capital Projects Fund	1,614 (A)
Special Revenue Funds:		
Housing Reserve	Redevelopment Project Capital Projects Fund	5,867,736 (B)
Public Art	Redevelopment Project Capital Projects Fund	166,399 (C)
Capital Projects Funds:		
Redevelopment Project	General Fund	3,000,000 (D)
Redevelopment Project	Housing Reserve Special Revenue Fund	362,593 (E)
Redevelopment Project	Street Improvement Capital Projects Fund	255,000 (D)
Redevelopment Project	Street Improvement Capital Projects Fund	106,850 (F)
Redevelopment Project	Park Improvement Capital Projects Fund	700,000 (D)
Redevelopment Project	Storm Drain Development Capital Projects Fund	400,000 (D)
Redevelopment Project	Water Utility	380,000 (D)
Redevelopment Project	Water Utility	686,651 (F)
Redevelopment Project	Sewer Utility	30,000 (D)
Redevelopment Project	Sewer Utility	300,000 (F)
Redevelopment Project	General Government Project Capital Projects Fund	25,644 (D)
Redevelopment Project	General Government Project Capital Projects Fund	200,000 (F)
Redevelopment Project	Equipment Management Internal Service Fund	15,426 (D)
Street Improvement	Redevelopment Project Capital Projects Fund	25,000 (D)
Street Improvement	Gas Tax Special Revenue Fund	1,200,000 (D)
General Government Project	General Fund	500,000 (D)
General Government Project	Street Improvement Capital Projects Fund	10,000 (D)
Enterprise Funds:		
Water Utility	Recycled Water Utility Enterprise Fund	440,000 (D)
Sewer Utility	Redevelopment Project Capital Projects Fund	193,961 (D)
Internal Service Fund:		
Equipment Management	General Fund	200,000 (D)
Total Interfund Transfers		<u><u>\$29,356,766</u></u>

The reasons for these transfers are set forth below:

- (A) Transfer to fund operating costs
- (B) State-required set-aside of Low and Moderate Income Housing portion of property tax increment
- (C) Transfer to fund public art projects
- (D) Transfer of capital projects amounts
- (E) Transfer to fund share of debt service
- (F) Return of unused capital projects funds

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2006, the Water Utility Enterprise Fund owed \$74,282 to the Sewer Utility Enterprise Fund.

NOTE 5 - LOANS RECEIVABLE

The City and Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing.

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. Federal funds received by the City are deposited with a commercial bank. Upon approval of loans, the bank disburses the funds and arranges for and collects repayments.

At June 30, 2006 the City had outstanding rehabilitation loans of \$2,579,199 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2006, the City received \$787,465 from all participants, and made new loans totaling \$543,330.

B. Milpitas Housing Associates Loan

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the fiscal year, the City received a payment of \$76,186 and as of June 30, 2006, principal and accrued interest totaled \$3,997,610.

C. PWA Associates, LLC Loan

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. As of June 30, 2006, there were \$500,000 in loans outstanding.

D. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, \$1,193,580 in fiscal 2001 to develop 468 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; interest of \$35,807 was accrued and paid in fiscal 2006. Principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. As of June 30, 2006, the outstanding balance totaled \$1,193,580.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 5 - LOANS RECEIVABLE (Continued)

E. *Parc North Associates LLC Loan*

In fiscal year 2004, Parc North Associates LLC started construction on 285 town homes and condominiums. Twenty-four of the units were made available to low income households, and thirty-four units were made available to moderate income households. The Redevelopment Agency is providing loans to eligible low-income families for the purchase of these town homes and condominium. As of June 30, 2006, there were \$1,582,000 in such loans outstanding.

F. *Home Loan*

A former employee had a loan in the amount of \$174,327 due to the City which was repaid in fiscal 2006. The loan was secured by a first deed of trust. In addition, the City paid \$499,010 of the cost of the employee's residence and held title to the property in common with the employee under a shared equity financing agreement. The City received its equity share when the residence was sold in fiscal 2006.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000 the Redevelopment Agency purchased land from the Santa Clara Valley Transportation Authority in the amount of \$6,988,800 which is being held for future development projects.

NOTE 7 - DEVELOPMENT AGREEMENTS

The City and Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

A. *The Crossing at Montague*

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% of the units to very low income households. On behalf of the developer, the City issued \$45,000,000 in tax exempt bonds and \$15,000,000 in taxable bonds in June 2000. The debt service payments on these bonds are solely the responsibility of the developer.

B. *Shapell Industries*

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, the Agency will assist in the rehabilitation of four existing very low-income units independently or in conjunction with a non-profit housing developer. At June 30, 2006, the Agency had not expended any funds on the silent second loans. The rehabilitation of the four very low income units was completed in fiscal year 2006 at a cost of \$198,308.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

C. *Parc North Associates LLC Loan*

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums, of which fifty-eight units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of \$1,823,480 for permits, fees, and infrastructure. As of June 30, 2006, the Agency expended \$445,120 of this amount. The Agency also will provide a total of \$1,974,000 for silent-second loans as disclosed in Note 5E.

D. *Apton Properties LLC*

In September 2004, the Agency entered into an Owner Participation Agreement with Apton Properties, LLC for the development of a mixed-use project that will include commercial retail and a 93-unit condominium complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of \$852,560 for permits, fees and infrastructure, and a \$378,000 developer loan upon completion of the nineteen affordable housing units. As of June 30, 2006, the Agency had not expended any funds on the grant or on the developer loan.

E. *Fairfield Development LLC*

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project, of which 93 units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of \$369,560 for permits, fees, and infrastructure. The Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. As of June 30, 2006, the Agency had not expended any funds on the grant or silent-second loans.

F. *Installment Purchase Agreement*

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for \$57,750,000 in cash and \$135,000,000 payable over eighteen years at no interest, under the Installment Purchase Agreement discussed in Note 9.

The Agency also agreed to re-sell this land to developers for a total of \$57,750,000, of which \$40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development. Because of the size and complexity of this transaction, those portions of the transaction occurring in fiscal 2006 were included in the fiscal 2005 financial statements.

In addition, starting in 2024 the Agency is required to pay the County the greater of \$2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are part of this land, but not to exceed \$5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

G. KB Home South Bay Inc.

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D) mentioned in Note 7F above. The Agency will provide a total of \$4,250,000 and approximately \$8,750,000 of silent-second mortgages to eighty-five and twenty-five moderate income households on Parcels C and D, respectively. As of June 30, 2006, the Agency had not expended any funds on the silent-second loans.

H. Mid-Peninsula Milpitas Affordable Housing Associates

In December 2005, the Agency entered into a Disposition and Development Agreement with MP Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency will provide a loan of \$14.6 million and a grant of \$1 million to the Developer. As of June 30, 2006, the Agency had disbursed only amounts relating to the grant of \$840,714.

NOTE 8 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is \$5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	30

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Capital assets not being depreciated:					
Land	\$32,880,302	\$2,160,839			\$35,041,141
Construction in progress	22,631,484	13,900,908		(\$1,716,168)	34,816,224
Total capital assets not being depreciated	55,511,786	16,061,747		(1,716,168)	69,857,365
Capital assets being depreciated:					
Buildings and improvements	90,725,596	609,152		1,287,186	92,621,934
Other improvements	20,336,645	9,045			20,345,690
Machinery and equipment	19,320,686	1,001,437	(\$958,476)		19,363,647
Landscape system	29,620,261	13,700			29,633,961
Storm system	72,588,333	6,359			72,594,692
Street system	200,108,966	1,463,398		368,982	201,941,346
Traffic system	14,566,680	878,794		60,000	15,505,474
Total capital assets being depreciated	447,267,167	3,981,885	(958,476)	1,716,168	452,006,744
Less accumulated depreciation for:					
Buildings and improvements	(18,270,466)	(3,540,460)			(21,810,926)
Other improvements	(9,507,811)	(960,491)			(10,468,302)
Machinery and equipment	(11,469,881)	(1,590,751)	936,649		(12,123,983)
Landscape system	(6,966,236)	(593,090)			(7,559,326)
Storm system	(62,798,249)	(997,159)			(63,795,408)
Street system	(121,817,887)	(7,374,307)			(129,192,194)
Traffic system	(6,295,196)	(616,992)			(6,912,188)
Total accumulated depreciation	(237,125,726)	(15,673,250)	936,649		(251,862,327)
Net capital assets being depreciated	210,141,441	(11,691,365)	(21,827)	1,716,168	200,144,417
Governmental activity capital assets, net	\$265,653,227	\$4,370,382	(\$21,827)		\$270,001,782

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2006:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Public Works Yard Parking Lot Expansion	\$250,000	\$194,737	\$55,263
Community Center Renovations	460,000	331,558	128,442
Storm Water Pump Station Improvement	135,000	21,730	113,270
New Finance System	3,096,093	2,966,882	129,211
Department Hardware	2,575,617	2,380,198	195,419
Computer Aided Draft	2,985,000	2,848,049	136,951
Radio Replacement Plan	1,083,245	997,562	85,683
Information Management System	700,000	514,059	185,941
Miscellaneous City Building Improvement Projects	876,866	582,866	294,000
Berryessa Pump Station Engine	1,800,000	205,436	1,594,564
Oakcreek Pump Station Engine	337,000	211,148	125,852
Milpitas Library Offsite Utility Improvements	6,024,910	5,125,530	899,380
Midtown Parking Structure Right of Way	4,500,000	2,671,268	1,828,732
Calaveras/Abel Dual Left Turn Lanes	373,500	125,023	248,477
Abel Street Midtown Improvements	1,455,000	1,303,906	151,094
Evidence Freezer	135,000	101,264	33,736
Sports Center Large Gym Improvement	150,000	17,999	132,001
Midtown Parking Garage Design	12,500,000	944,181	11,555,819
Library Design	5,300,000	2,988,710	2,311,290
Sports Center Underwater Pool	105,000	97,942	7,058
Bart Extension Coordination & Plan	150,000	95,901	54,099
Main Street Midtown Improvement	1,650,000	780,067	869,933
Main/Great Mall Dr Sewer Replacement	160,000	1,491	158,509
Curtis Avenue Improvements	490,000	6,700	483,300
N Main Street EIR Mitigation	700,000	439,123	260,877
Midtown Parking Garage West	1,300,000	282,870	1,017,130
Range Lead Containment	210,000	2,696	207,304
Milpitas Boulevard Signal	50,000	12,879	37,121
Senior Center	2,300,000	30,243	2,269,757
Transit Area Specific	1,372,697	246,651	1,126,046
Interim Senior Center Re-Roofing	105,000	96,792	8,208
Sports Center Swimming Pool	252,000	250,961	1,039
Park Renovation Plan	808,873	779,516	29,357
Hetch-Hetchy Right of Way Landscape Renovation	348,600	217,397	131,203
Alviso Adobe Renovation	2,403,272	568,699	1,834,573
Hall Park Improvement	441,612	258,396	183,216
Ball Park Fence Field	375,000	72,501	302,499
Athletic Court Rehabilitation	917,160	894,703	22,457
Bobby Sox Field Improvement	75,000	2,388	72,612
Berryessa Creek Trail	1,015,000	970,198	44,802
Penitencia Creek Trail	40,000	138	39,862
Berryessa Creek Trail	25,000	1,603	23,397
Miscellaneous Minor Storm Drain Project	455,000	427,512	27,488
Manor Storm Pump Station Backup Generator	190,000	189,033	967
Public Safety Technology	3,456,014	3,412,346	43,668
Abbot Pump Replacement	85,000	2,269	82,731
PEG Access Support	340,000	12,903	327,097
On-line Development System	500,000	130,200	369,800
Total construction in progress	<u>\$65,057,459</u>	<u>\$34,816,224</u>	<u>\$30,241,235</u>

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2005 as Restated	Additions	Transfers	Balance at June 30, 2006
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	16,345,450	\$1,895,456	(\$9,608,930)	8,631,976
Total capital assets not being depreciated	17,478,529	1,895,456	(9,608,930)	9,765,055
Capital assets being depreciated:				
Distribution facilities	67,261,796			67,261,796
Service lines	5,848,653	7,356	1,846,136	7,702,145
Sewer lines	50,167,804		7,762,794	57,930,598
Capacity rights	22,674,803	7,550,393		30,225,196
Total capital assets being depreciated	145,953,056	7,557,749	9,608,930	163,119,735
Less accumulated depreciation for:				
Distribution facilities	(34,558,315)	(1,170,765)		(35,729,080)
Service lines	(3,517,676)	(148,227)		(3,665,903)
Sewer lines	(31,407,826)	(1,047,208)		(32,455,034)
Capacity rights	(5,756,555)	(811,272)		(6,567,827)
Total accumulated depreciation	(75,240,372)	(3,177,472)		(78,417,844)
Net capital assets being depreciated	70,712,684	4,380,277	9,608,930	84,701,891
Business-type activity capital assets, net	\$88,191,213	\$6,275,733		\$94,466,946

Business-type activities construction in progress comprised the following at June 30, 2006:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Miscellaneous Minor Projects	\$428,000	\$372,330	\$55,670
Sewer I/I Structure	2,372,027	1,196,947	1,175,080
Main SPS Site Improvements	2,750,000	1,699,445	1,050,555
Venus Pump Station	52,000	754	51,246
Main Sewer Pump Station	4,000,000	635,533	3,364,467
Water Misc. Minor Projects	180,000	104,809	75,191
Pressure Reducing Valve	120,000	35,595	84,405
Well Upgrade Program	2,320,000	1,049,569	1,270,431
Hillside Water System Improvements	2,637,768	2,593,097	44,671
Los Coches Water Valve Replacement	84,100	3,229	80,871
Water System Air Relief	330,000		330,000
City Reservoir Evaluation/Study	510,000	469,227	40,773
South Milpitas Water Line Replacement	440,000	297,143	142,857
Water Sample Station Improvement	66,000	609	65,391
Gilbraltar Reservoir & Pump	225,000	172,248	52,752
Ayer Reservoir & Pump	100,000	1,441	98,559
Total construction in progress	\$16,614,895	\$8,631,976	\$7,982,919

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended June 30, 2006:

	Balance December 31, 2004	Additions	Balance December 31, 2005
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Capital assets being depreciated:			
Buildings	11,400,858	\$193,420	11,594,278
Furniture	217,149		217,149
Office equipment	60,710		60,710
Improvements	200,423		200,423
Total capital assets being depreciated	11,879,140	193,420	12,072,560
Less accumulated depreciation	(3,935,780)	(248,419)	(4,184,199)
Net capital assets being depreciated	7,943,360	(54,999)	7,888,361
Total capital assets, net	\$9,508,637	(\$54,999)	\$9,453,638

D. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
General Government	\$3,345,606
Public Works	9,485,142
Engineering and Planning	982,592
Police	507,165
Fire	356,649
Internal Service Fund	996,096
Total Governmental Activities	\$15,673,250
Business-Type Activities	
Water Utility	\$1,298,775
Recycled Water Utility	20,217
Sewer Utility	1,858,480
Total Business-Type Activities	\$3,177,472
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	\$248,419

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 12.5 million gallons per day or about 7.5% of the total plant capacity. As of June 30, 2006 the City had capitalized its' share in the amount of \$9,086,631. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2006 the City's operation and maintenance share was approximately 6% of the total cost.

During fiscal year 2006 the City purchased additional capacity in the WPCP, bringing its total capacity rights to 8.1% effective July 1, 2006. The City capitalized this additional capacity in the amount of \$7,060,904 at June 30, 2006.

Under a plan approved by the Regional Water Resources Control Board, the City is responsible for approximately 7.5% of the costs to be incurred by the WPCP to mitigate damage to an endangered species habitat. Approved in 1995, the South Bay Water Recycling Program (SBWRP) consisted of constructing a water recycling distribution system that would reduce the volume of wastewater discharged into the San Francisco Bay by the treatment plant. This Program was estimated to cost a total of \$140 million for Phase I and \$100 million for Phase II, of which the City's share will approximate 7.5%. At June 30, 2006, Phase I and Phase II construction for Milpitas' infrastructure has been completed and the City capitalized its' share of the Program in the amount of \$14,077,661.

Between fiscal years 2002 and 2003, the WPCP contributed \$10,830,628 to the City to fund the construction costs of Phase II in the City, of which \$10,101,319 was expended through June 30, 2006. The City had previously capitalized construction costs funded with these contributions as capacity rights, based on management's interpretation of the agreement with the WPCP. However, during fiscal year 2006 management determined that although the project improvements are being maintained by the City, the WPCP fully reimburses the City for the maintenance costs, therefore the project improvements do not add to the City's capacity rights. As a result, capacity rights of \$9,361,415 have been removed and net assets have been restated as of July 1, 2005.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 9 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The City's long-term debt is recorded only in the government-wide financial statements.

In governmental fund types, debt discounts and issuance costs are recognized in the current period.

A. Current Year Transactions and Balances

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance July 1, 2005	Retirements	Balance June 30, 2006	Current Portion
Redevelopment Agency 2003 Tax Allocation Bonds				
2%-5.25%, due September 1, 2032	\$194,440,000	\$3,660,000	\$190,780,000	\$3,750,000
Technology Certificates of Participation, Series 2000				
4% - 4.250%, due November 1, 2008	4,630,000	1,090,000	3,540,000	1,130,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	<u>54,280,736</u>	<u>3,809,524</u>	<u>50,471,212</u>	<u>3,628,118</u>
Total	<u>\$253,350,736</u>	<u>\$8,559,524</u>	<u>\$244,791,212</u>	<u>\$8,508,118</u>

B. 2003 Redevelopment Agency Tax Allocation Bonds

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of \$200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. In lieu of a reserve fund, the 2003 Bonds are secured by a \$13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

C. Certificates of Participation

On November 30, 2000, the City issued Technology Financing, Phase I, Certificates of Participation, in the original principal amount of \$8,610,000 to provide funds for the acquisition, installation and equipping of certain technology improvements. The COPs are collateralized by revenue from the Fire Station No. 1 (Main Fire Station) lease agreement. In lieu of a reserve fund, the COPs are secured by an \$861,000 Surety Bond issued by the Municipal Bond Investors Assurance Corporation. Principal is payable annually and interest is payable semi-annually through 2009.

D. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 7F above. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of \$50,471,212, at June 30, 2006, representing the present value of future payments due under this Agreement.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 9 - LONG TERM DEBT (Continued)

E. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Total Principal	Total Interest
2007	\$8,508,118	\$9,462,258
2008	8,490,350	9,482,371
2009	8,480,810	9,463,786
2010	8,169,105	9,414,453
2011	8,224,862	9,377,846
2012-2016	44,141,089	46,619,151
2017-2021	51,470,974	43,994,567
2022-2026	52,980,904	26,275,266
2027-2031	45,410,000	7,321,520
2032-2033	8,915,000	446,614
	\$244,791,212	\$171,857,832

F. Defeased Bonds

As of June 30, 2006, outstanding balances for defeased debt were \$31,370,000 for the Redevelopment Agency 1997 Tax Allocation Bonds, \$15,450,000 for the Redevelopment Agency 2000 Tax Allocation Bonds, and \$6,285,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET ASSETS AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Net Assets is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets and Capacity Rights, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for low and moderate income housing purposes.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. *Reservations of Governmental Fund Balances*

Reserve for encumbrances represents the portion of fund balance set aside for open purchase orders.

Reserves for loans, prepaids, materials, supplies and deposits are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserved for property held for resale is the carrying value of property held by the Redevelopment Agency, which is reserved since it is not an available spendable resource.

Reserved for low and moderate income housing is legally restricted to expenditure for low and moderate income housing under the California Health and Safety Code.

C. *Designations of Governmental Fund Balances*

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for sick leave payable benefits is the portion of fund balance to be used for repayment of the long term portion of sick leave payable.

Designated for retiree medical benefits is the portion of fund balance to be used for repayment of the long term portion of the retiree medical benefit liability.

Designated for PERS stabilization is the portion of the fund balance to be used to mitigate unpredictable PERS rate increases.

Designated for library project is the portion of the fund balance to be used for the construction and operation of a new library as approved by Measure H.

Designated for projects is the portion of fund balance to be used for projects approved by Council as part of the Capital Improvement Program budget.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payment	monthly for life	monthly for life
Retirement Age	50	50
Monthly benefits, as a % of annual salary	3%	2.0%-2.7%
Required employee contribution rates	9%	8%
Required employer contribution rates	26.24%	15.142%
Actuarially required contribution	\$5,160,185	\$3,478,005

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City does not have a net pension obligation since it pays these actuarially required contributions annually.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately six percent of the net balance is amortized annually.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						Unfunded (Overfunded)
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Liability as % of Payroll
2002	\$98,703,321	\$112,445,432	\$13,742,111	87.8%	\$8,508,222	161.516%
2003	102,624,141	122,040,990	19,416,849	84.1%	17,862,170	108.704%
2004	111,436,817	137,105,190	25,668,373	81.3%	18,296,030	140.295%

Miscellaneous Plan:

Actuarial						Unfunded (Overfunded)
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Liability as % of Payroll
2002	\$64,819,733	\$67,156,651	\$2,336,918	96.5%	\$20,459,866	11.422%
2003	68,311,915	78,939,997	10,628,082	86.5%	20,868,463	50.929%
2004	74,706,971	88,221,388	13,514,417	84.7%	21,824,238	61.924%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

PERS has reported that the value of the net assets in the Plan held for pension benefits changed during the year ended June 30, 2004 (the most recent available) as follows:

	Safety	Miscellaneous
Beginning Balance 6/30/03	\$102,624,141	\$68,311,915
Contributions received	4,806,408	3,492,164
Benefits and Refunds Paid	(3,859,405)	(2,356,079)
Miscellaneous Adjustments	(1,857)	1,919
Expected Investment Earnings Credited	7,989,312	5,337,448
Expected Actuarial Value of Assets 6/30/04	<u>\$111,558,599</u>	<u>\$74,787,367</u>
Market Value of Assets 6/30/04	<u>\$109,731,871</u>	<u>\$73,581,423</u>
Actuarial Value of Assets 6/30/04	<u>\$111,436,817</u>	<u>\$74,706,971</u>

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2006, 2005, and 2004 were \$8,638,190, \$7,159,293, and \$3,405,511 respectively. The City made these contributions as required.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

B. *Public Agency Retirement System*

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$17,187 and the employee's required contributions of \$68,743 were made during the fiscal year ending June 30, 2006.

NOTE 12 - EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

B. *Retiree Medical Benefits*

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. The City pays up to 100% of the medical premiums for eligible retirees on a pay-as-you-go basis. During the fiscal year ended June 30, 2006 the City expended \$579,522 on benefits for 128 retirees.

The City has estimated its future liability for these benefits based on life expectancies obtained from PERS and certain assumptions regarding the increases in future medical costs. During the year ended June 30, 2006 the City increased its liability for these benefits by \$1,309,988; the balance at June 30, 2006 was \$9,641,911, of which \$646,518 was due in one year.

C. *Accrued Vacation and Sick Leave Liabilities*

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2006, sick leave benefits payable decreased \$271,990 and vacation benefits payable increased \$17,176. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Assets.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	<u>Accrued Vacation</u>	<u>Sick Leave</u>
Balance as of June 30, 2005	\$4,427,641	\$5,524,658
Additions	4,098,736	1,703,985
Payments and adjustments	<u>(4,081,560)</u>	<u>(1,975,976)</u>
Balance as of June 30, 2006	<u>\$4,444,817</u>	<u>\$5,252,667</u>
General Government	\$396,496	\$149,668
Building	115,441	94,171
Public Works	470,332	256,124
Engineering and Planning	345,631	227,145
Recreation	109,554	72,231
Police	2,107,529	1,871,315
Fire	770,177	2,415,722
Water Utility	70,693	115,928
Sewer Utility	<u>58,964</u>	<u>50,363</u>
Total	<u>4,444,817</u>	<u>5,252,667</u>
Long-Term Portion:		
Governmental activities	3,057,422	4,231,720
Business-type activities	<u>129,657</u>	<u>166,291</u>
Current Portion	<u>\$1,257,738</u>	<u>\$854,656</u>

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of self-funded general liability coverage and \$5,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible.

During the fiscal year ended June 30, 2006 the City contributed \$307,581 for current year coverage.

ABAG Plan is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG Plan including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's contributions to ABAG Plan equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 13 - RISK MANAGEMENT (Continued)

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$5,000,000. The City has a deductible or uninsured liability of up to \$750,000 per claim for miscellaneous employees and \$1,000,000 for public safety employees.

C. Dental

The City is self-insured for dental care up to a maximum \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2006 the City paid \$639,618 in dental claims.

D. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments in the General Fund and the Sewer Enterprise Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2006			2005
	Worker's Compensation	General Liability	Total	
Beginning balance	\$3,914,992	\$192,640	\$4,107,632	\$5,485,199
Liability for current fiscal year claims	244,491	71,430	315,921	295,726
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	363,874	(70,649)	293,225	(330,505)
Claims paid	(552,645)	(81,019)	(633,664)	(1,342,788)
Ending balance	<u>\$3,970,712</u>	<u>\$112,402</u>	<u>\$4,083,114</u>	<u>\$4,107,632</u>

The City's Worker's Compensation insurance coverage increased from \$1,000,000 to \$5,000,000. Settlements have not exceeded insurance coverage in the past three fiscal years.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from \$240 million to \$502 million. The limitation was subsequently increased to \$2.4 billion in 2003. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During fiscal 2006, the Agency made pass-thru payments in the amount of \$901,100.

Construction commitments are discussed in Notes 7 and 8.

NOTE 15 - LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2006 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2006
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$190,000-365,000	2007-2017	\$2,955,000
LID #18	1999	5.25-5.85%	145,000-290,000	2007-2019	2,745,000
LID #19	1998	5.35%	565,000	2007	565,000
LID #18 Refunding	1998	5.30-5.65%	485,000-750,000	2007-2015	5,475,000
LID #20	1999	5.30-5.70%	715,000-1,365,000	2007-2019	13,040,000
LID #9R and 12R	1999	5.10-5.625%	375,000-1,120,000	2007-2013	3,695,000
Total					<u>\$28,475,000</u>

NOTE 16 - TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The State of California has directed that a portion of the incremental property tax received by redevelopment agencies be shifted to local educational agencies. During the fiscal year ended June 30, 2006, \$2,421,926 was shifted as a result of the State directive.



CITY OF MILPITAS
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	\$26,604,400	\$28,606,441	\$2,002,041
Less: Educational Revenue			
Augmentation Fund payment	(3,000,000)	(2,421,926)	(578,074)
Interest and others	3,447,000	3,317,749	(129,251)
Intergovernmental	180,000	30,000	(150,000)
Other	2,554,167	24,689	(2,529,478)
Total Revenues	29,785,567	29,556,953	(228,614)
Expenditures			
Current:			
Policy, Planning and Implementation	1,495,341	1,180,374	314,967
Finance	38,298	12,498	25,800
Non-departmental	458,848	216,176	242,672
Debt service:			
Principal	7,470,404	7,469,524	880
Interest and fiscal charges	9,253,023	9,253,022	1
Total Expenditures	18,715,914	18,131,594	584,320
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,069,653	11,425,359	355,706
OTHER FINANCING SOURCES (USES)			
Transfers in	5,480,426	6,462,164	981,738
Transfers (out)	(19,691,132)	(13,327,429)	6,363,703
Total Other Financing Sources (Uses)	(14,210,706)	(6,865,265)	7,345,441
Net change in fund balance	(\$3,141,053)	4,560,094	\$7,701,147
Adjustment to budgetary basis:			
Capital outlay		(18,997,885)	
Encumbrance adjustments		5,997,831	
Budgetary fund balance, July 1		136,072,016	
Budgetary fund balance, June 30		\$127,632,056	

CITY OF MILPITAS
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Interest and others	\$365,000	\$344,754	(\$20,246)
Intergovernmental	873,479	1,198,620	325,141
Developer contributions	708,323	2,539,166	1,830,843
Other		1,447	1,447
Total Revenues	1,946,802	4,083,987	2,137,185
Expenditures			
Current:			
General Government	605,241	605,241	
Public Works	38,331	38,331	
Non-departmental	435,450	377,339	58,111
Total Expenditures	1,079,022	1,020,911	58,111
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	867,780	3,063,076	2,195,296
OTHER FINANCING SOURCES (USES)			
Transfers in	1,225,000	1,225,000	
Transfers (out)	(1,265,000)	(1,371,850)	(106,850)
Total Other Financing Sources (Uses)	(40,000)	(146,850)	(106,850)
Net change in fund balance	\$827,780	2,916,226	\$2,088,446
Adjustment to budgetary basis:			
Capital outlay		(4,611,488)	
Encumbrance adjustments		2,275,667	
Budgetary fund balance, July 1		10,532,019	
Budgetary fund balance, June 30		\$11,112,424	



CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Abandoned Vehicle Abatement
ASSETS						
Cash and investments available for operations	\$204,838	\$245,493	\$175,949	\$992,159	\$172,455	\$83,796
Restricted investments						
Receivables:						
Accounts				25,488		
Due from other governments	111,974	55,281				
Interest	1,335		2,077	12,452	628	
Loans receivable		2,579,199				
Prepays, materials, supplies and deposits		1,690		277	148	594
Total Assets	\$318,147	\$2,881,663	\$178,026	\$1,030,376	\$173,231	\$84,390
LIABILITIES						
Accounts payable		\$75,194	\$8,109	\$21,371	\$12,036	
Deferred revenue			27,508			
Refundable deposits				18,843		
Total Liabilities		75,194	35,617	40,214	12,036	
FUND BALANCE						
Fund Balances:						
Reserved for:						
Encumbrances		3,189	100	36,068	49,333	
Loans		2,579,199				
Prepays, materials, supplies and deposits		1,690		277	148	\$594
Unreserved, Designated for:						
Projects						
Unreserved, Undesignated	\$318,147	222,391	142,309	953,817	111,714	83,796
Total Fund Balances	318,147	2,806,469	142,409	990,162	161,195	84,390
Total Liabilities and Fund Balances	\$318,147	\$2,881,663	\$178,026	\$1,030,376	\$173,231	\$84,390

CAPITAL PROJECTS FUNDS

<u>Hetch-Hetchy Ground Lease</u>	<u>Public Art</u>	<u>Park Improvement</u>	<u>General Government Project</u>	<u>Storm Drain Development</u>	<u>Total Nonmajor Governmental Funds</u>
\$1,525,367	\$159,752	\$7,321,311	\$1,488,258 124,940	\$24,384	\$12,393,762 124,940
			2		25,490
5,056	1,955	343,083 89,850	18,351	298	510,338 132,002 2,579,199 2,709
<u>\$1,530,423</u>	<u>\$161,707</u>	<u>\$7,754,244</u>	<u>\$1,631,551</u>	<u>\$24,682</u>	<u>\$15,768,440</u>
		\$97,283 343,083	\$134,275		\$348,268 370,591 18,843
		440,366	134,275		737,702
					88,690 2,579,199 2,709
<u>\$1,530,423</u>	<u>\$161,707</u>	3,209,951 4,103,927	871,352 625,924	\$24,682	4,105,985 8,254,155
<u>1,530,423</u>	<u>161,707</u>	<u>7,313,878</u>	<u>1,497,276</u>	<u>24,682</u>	<u>15,030,738</u>
<u>\$1,530,423</u>	<u>\$161,707</u>	<u>\$7,754,244</u>	<u>\$1,631,551</u>	<u>\$24,682</u>	<u>\$15,768,440</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction Services	Lighting & Landscape Maintenance District	Abandoned Vehicle Abatement
REVENUES:						
Sales taxes				\$407,375		
Other taxes						
Licenses and fees						
Interest and others	\$7,610	\$2,382	\$7,228	35,466	\$4,056	\$1
Intergovernmental	1,192,644	446,335	135,413	188,322		69,943
Charges for services				35,935		
Developer contributions						
Other				5,164	287,078	
TOTAL REVENUES	1,200,254	448,717	142,641	672,262	291,134	69,944
EXPENDITURES:						
Current:						
General Government		74,625				
Public Works					183,457	
Engineering and Planning		384,713		447,325	59,975	37,624
Police			198,022			38,000
Capital outlay						
TOTAL EXPENDITURES		459,338	198,022	447,325	243,432	75,624
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,200,254	(10,621)	(55,381)	224,937	47,702	(5,680)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,200,000)			(20,466)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,200,000)			(20,466)		
NET CHANGE IN FUND BALANCES	254	(10,621)	(55,381)	204,471	47,702	(5,680)
FUND BALANCES AT BEGINNING OF YEAR	317,893	2,817,090	197,790	785,691	113,493	90,070
FUND BALANCES AT END OF YEAR	\$318,147	\$2,806,469	\$142,409	\$990,162	\$161,195	\$84,390

CAPITAL PROJECTS FUNDS

<u>Hetch-Hetchy Ground Lease</u>	<u>Public Art</u>	<u>Park Improvement</u>	<u>General Government Project</u>	<u>Storm Drain Development</u>	<u>Total Nonmajor Governmental Funds</u>
					\$407,375
				\$400	400
\$54,730	\$5,308	\$275,176	\$50,335	2,793	445,085
		495,160			2,527,817
			340,000	381,216	35,935
		864			721,216
					293,106
<u>54,730</u>	<u>5,308</u>	<u>771,200</u>	<u>390,335</u>	<u>384,409</u>	<u>4,430,934</u>
24,405	10,000				109,030
					183,457
					929,637
					236,022
		894,504	539,031		1,433,535
<u>24,405</u>	<u>10,000</u>	<u>894,504</u>	<u>539,031</u>		<u>2,891,681</u>
30,325	(4,692)	(123,304)	(148,696)	384,409	1,539,253
	166,399		510,000		676,399
		(700,000)	(227,258)	(400,000)	(2,547,724)
	166,399	(700,000)	282,742	(400,000)	(1,871,325)
30,325	161,707	(823,304)	134,046	(15,591)	(332,072)
<u>1,500,098</u>		<u>8,137,182</u>	<u>1,363,230</u>	<u>40,273</u>	<u>15,362,810</u>
<u>\$1,530,423</u>	<u>\$161,707</u>	<u>\$7,313,878</u>	<u>\$1,497,276</u>	<u>\$24,682</u>	<u>\$15,030,738</u>

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others		\$7,610	\$7,610		\$2,382	\$2,382
Intergovernmental	\$1,290,000	1,192,644	(97,356)	\$1,087,000	446,335	(640,665)
Charges for services						
Other						
Total Revenues	<u>1,290,000</u>	<u>1,200,254</u>	<u>(89,746)</u>	<u>1,087,000</u>	<u>448,717</u>	<u>(638,283)</u>
EXPENDITURES						
Current:						
Policy, planning and implementation				61,723	50,354	11,369
Finance				20,000	19,999	1
Public Works						
Planning, Recreation & Neighborhood Services				928,449	928,136	313
Police						
Non-departmental				8,474	7,459	1,015
Total Expenditures				<u>1,018,646</u>	<u>1,005,948</u>	<u>12,698</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,290,000</u>	<u>1,200,254</u>	<u>(89,746)</u>	<u>68,354</u>	<u>(557,231)</u>	<u>(625,585)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(1,200,000)</u>	<u>(1,200,000)</u>				
Total Other Financing Sources (Uses)	<u>(1,200,000)</u>	<u>(1,200,000)</u>				
NET CHANGE IN FUND BALANCES	<u>\$90,000</u>	<u>254</u>	<u>(\$89,746)</u>	<u>\$68,354</u>	<u>(557,231)</u>	<u>(\$625,585)</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					543,421	
Encumbrance adjustments					3,189	
Fund balances at beginning of year		<u>317,893</u>			<u>2,817,090</u>	
Fund balances at end of year		<u>\$318,147</u>			<u>\$2,806,469</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$8,000	\$7,228	(\$772)	\$130,000	\$407,375	\$277,375			
213,349	135,413	(77,936)	20,000	35,466	15,466	\$3,000	\$4,056	\$1,056
			297,663	188,322	(109,341)			
			179,000	35,935	(143,065)			
				5,164	5,164	278,000	287,078	9,078
221,349	142,641	(78,708)	626,663	672,262	45,599	281,000	291,134	10,134
			619,919	483,393	136,526	92,759	87,194	5,565
						210,053	205,571	4,482
233,981	198,122	35,859						
233,981	198,122	35,859	619,919	483,393	136,526	302,812	292,765	10,047
(12,632)	(55,481)	(42,849)	6,744	188,869	182,125	(21,812)	(1,631)	20,181
			(20,466)	(20,466)				
			(20,466)	(20,466)				
(\$12,632)	(55,481)	(\$42,849)	(\$13,722)	168,403	\$182,125	(\$21,812)	(1,631)	\$20,181
	100			36,068			49,333	
	197,790			785,691			113,493	
	\$142,409			\$990,162			\$161,195	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	ABANDONED VEHICLE ABATEMENT			PUBLIC ART		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others	\$3,000	\$1	(\$2,999)		\$5,308	\$5,308
Intergovernmental	70,000	69,943	(57)			
Charges for services						
Other						
Total Revenues	73,000	69,944	(3,056)		5,308	5,308
EXPENDITURES						
Current:						
Policy, planning and implementation				\$10,000	10,000	
Finance						
Public Works						
Planning, Recreation & Neighborhood Services	38,000	37,624	376			
Police	38,000	38,000				
Non-departmental						
Total Expenditures	76,000	75,624	376	10,000	10,000	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,000)	(5,680)	(2,680)	(10,000)	(4,692)	5,308
OTHER FINANCING SOURCES (USES)						
Transfers in				166,399	166,399	
Transfers (out)						
Total Other Financing Sources (Uses)				166,399	166,399	
NET CHANGE IN FUND BALANCES	<u>(\$3,000)</u>	<u>(5,680)</u>	<u>(\$2,680)</u>	<u>\$156,399</u>	<u>161,707</u>	<u>\$5,308</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Encumbrance adjustments						
Fund balances at beginning of year		90,070				
Fund balances at end of year		<u>\$84,390</u>			<u>\$161,707</u>	

TOTALS		
Budget	Actual	Variance Positive (Negative)
\$130,000	\$407,375	\$277,375
34,000	62,051	28,051
2,958,012	2,032,657	(925,355)
179,000	35,935	(143,065)
278,000	292,242	14,242
3,579,012	2,830,260	(748,752)
784,401	630,941	153,460
20,000	19,999	1
210,053	205,571	4,482
966,449	965,760	689
271,981	236,122	35,859
8,474	7,459	1,015
2,261,358	2,065,852	195,506
1,317,654	764,408	(553,246)
166,399	166,399	-
(1,220,466)	(1,220,466)	-
(1,054,067)	(1,054,067)	
\$263,587	(289,659)	(\$553,246)
	543,421	
	88,690	
	4,322,027	
	\$4,664,479	



CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$493,553	\$855,593	\$696,631	\$652,515
Receivables:				
Accounts	2,501	37,449	36,631	3,319
Interest	3,548	8,059	3,548	8,059
Total Assets	<u>\$499,602</u>	<u>\$901,101</u>	<u>\$736,810</u>	<u>\$663,893</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$499,602</u>	<u>\$901,101</u>	<u>\$736,810</u>	<u>\$663,893</u>
Total Liabilities	<u>\$499,602</u>	<u>\$901,101</u>	<u>\$736,810</u>	<u>\$663,893</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$3,214	\$4,280	\$1,256	\$6,238
Receivables:				
Interest	23	77	23	77
Total Assets	<u>\$3,237</u>	<u>\$4,357</u>	<u>\$1,279</u>	<u>\$6,315</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$3,237</u>	<u>\$4,357</u>	<u>\$1,279</u>	<u>\$6,315</u>
Total Liabilities	<u>\$3,237</u>	<u>\$4,357</u>	<u>\$1,279</u>	<u>\$6,315</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,232,087	\$1,536,116	\$1,480,610	\$1,287,593
Cash and investments held by trustees	1,072,908	59,002		1,131,910
Receivable:				
Due from other governments	660		660	
Interest	4,114	7,218	4,114	7,218
Total Assets	<u>\$2,309,769</u>	<u>\$1,602,336</u>	<u>\$1,485,384</u>	<u>\$2,426,721</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,309,769</u>	<u>\$1,602,336</u>	<u>\$1,485,384</u>	<u>\$2,426,721</u>
Total Liabilities	<u>\$2,309,769</u>	<u>\$1,602,336</u>	<u>\$1,485,384</u>	<u>\$2,426,721</u>

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<hr/> LID #19 <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$758,595	\$324,817	\$699,011	\$384,401
Cash and investments held by trustees	303,861	16,711		320,572
Receivable:				
Interest	2,411	2,744	2,411	2,744
Total Assets	<u>\$1,064,867</u>	<u>\$344,272</u>	<u>\$701,422</u>	<u>\$707,717</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$1,064,867</u>	<u>\$344,272</u>	<u>\$701,422</u>	<u>\$707,717</u>
Total Liabilities	<u>\$1,064,867</u>	<u>\$344,272</u>	<u>\$701,422</u>	<u>\$707,717</u>
<hr/> LID #20 <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,090,996	\$1,484,054	\$1,438,981	\$1,136,069
Cash and investments held by trustees	1,041,826	57,320		1,099,146
Receivables:				
Interest	2,568	4,968	2,568	4,968
Total Assets	<u>\$2,135,390</u>	<u>\$1,546,342</u>	<u>\$1,441,549</u>	<u>\$2,240,183</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,135,390</u>	<u>\$1,546,342</u>	<u>\$1,441,549</u>	<u>\$2,240,183</u>
Total Liabilities	<u>\$2,135,390</u>	<u>\$1,546,342</u>	<u>\$1,441,549</u>	<u>\$2,240,183</u>
<hr/> LID #9R and #12R <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,231,106	\$990,977	\$1,287,765	\$934,318
Cash and investments held by trustees	1,055,450	174,737	218,798	1,011,389
Receivables:				
Due from other governments	4,776	32,798	4,777	32,797
Interest	3,429	5,699	3,429	5,699
Total Assets	<u>\$2,294,761</u>	<u>\$1,204,211</u>	<u>\$1,514,769</u>	<u>\$1,984,203</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,294,761</u>	<u>\$1,204,211</u>	<u>\$1,514,769</u>	<u>\$1,984,203</u>
Total Liabilities	<u>\$2,294,761</u>	<u>\$1,204,211</u>	<u>\$1,514,769</u>	<u>\$1,984,203</u>

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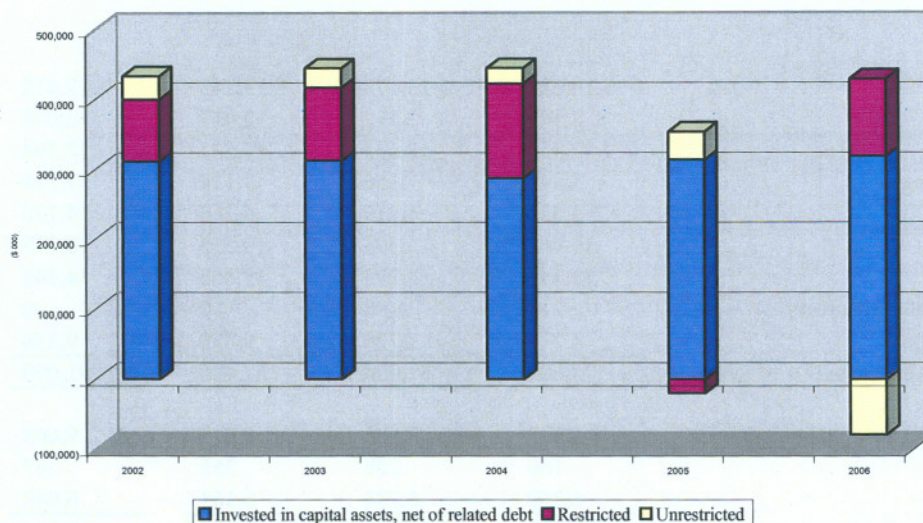
CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<u>TOTAL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments available for operations	\$4,809,551	\$5,195,837	\$5,604,254	\$4,401,134
Cash and investments held by trustees	3,474,045	307,770	218,798	3,563,017
Receivables:				
Accounts	2,501	37,449	36,631	3,319
Due from other governments	5,436	32,798	5,437	32,797
Interest	16,093	28,765	16,093	28,765
Total Assets	<u>\$8,307,626</u>	<u>\$5,602,619</u>	<u>\$5,881,213</u>	<u>\$8,029,032</u>
<u>Liabilities</u>				
Refundable deposits	\$502,839	\$905,458	\$738,089	\$670,208
Due to Local Improvement Districts	7,804,787	4,697,161	5,143,124	7,358,824
Total Liabilities	<u>\$8,307,626</u>	<u>\$5,602,619</u>	<u>\$5,881,213</u>	<u>\$8,029,032</u>

NAME	ADDRESS	CITY	STATE	ZIP
JOHN J. SMITH	1234567	ANYTOWN	CA	90210
JANE D. SMITH	1234567	ANYTOWN	CA	90210
JOHN J. SMITH	1234567	ANYTOWN	CA	90210
JANE D. SMITH	1234567	ANYTOWN	CA	90210
JOHN J. SMITH	1234567	ANYTOWN	CA	90210
JANE D. SMITH	1234567	ANYTOWN	CA	90210
JOHN J. SMITH	1234567	ANYTOWN	CA	90210
JANE D. SMITH	1234567	ANYTOWN	CA	90210
JOHN J. SMITH	1234567	ANYTOWN	CA	90210
JANE D. SMITH	1234567	ANYTOWN	CA	90210



**CITY OF MILPITAS
NET ASSETS
LAST FIVE FISCAL YEARS**
(Accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$219,305	\$221,431	\$192,380	\$225,140	\$224,223
Restricted	84,043	100,007	130,126	(26,974)	97,069
Unrestricted	11,755	(963)	(798)	18,969	(92,209)
Total governmental activities net assets	<u>\$315,103</u>	<u>\$320,475</u>	<u>\$321,708</u>	<u>\$217,135</u>	<u>\$229,083</u>
Business-type activities					
Invested in capital assets, net of related debt	\$92,182	\$91,151	\$94,693	\$88,191 (a)	\$94,467
Restricted	4,358	4,020	4,974	6,774	12,852
Unrestricted	21,596	28,824	23,102	21,125	12,980
Total business-type activities net assets	<u>\$118,136</u>	<u>\$123,995</u>	<u>\$122,769</u>	<u>\$116,090</u>	<u>\$120,299</u>
Primary government					
Invested in capital assets, net of related debt	\$311,487	\$312,582	\$287,073	\$313,331	\$318,690
Restricted	88,401	104,027	135,100	(20,200)	109,921
Unrestricted	33,351	27,861	22,304	40,094	(79,229)
Total primary government net assets	<u>\$433,239</u>	<u>\$444,470</u>	<u>\$444,477</u>	<u>\$333,225</u>	<u>\$349,382</u>

The City of Milpitas implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

(a) The City restated the balance of capacity rights to remove improvements that did not add to the City's rights.

CITY OF MILPITAS
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities					
General Government	\$ 10,687	\$ 13,178	\$ 13,243	\$ 17,412	\$ 18,651
Building	2,348	2,512	2,017	2,048	2,195
Public Works	17,851	18,131	17,537	17,794	17,156
Engineering and Planning	8,549	7,156	7,114	7,116	7,453
Recreation	3,852	4,219	4,246	4,170	4,266
Police	16,465	19,593	19,575	18,773	20,473
Fire	11,353	14,293	13,865	14,448	14,381
Payment under developer agreements	210	98	0	0	9,384
Interest on Long Term Debt	4,288	3,724	9,829	9,338	0
Total governmental activities expenses	<u>75,603</u>	<u>82,904</u>	<u>87,426</u>	<u>91,099</u>	<u>93,959</u>
Business-type activities					
Water Utility	8,375	8,583	9,877	9,668	9,837
Recycled Water Utility	166	208	255	247	328
Sewer Utility	6,369	6,784	6,165	6,040	7,047
Total business-type activities expenses	<u>14,910</u>	<u>15,575</u>	<u>16,297</u>	<u>15,955</u>	<u>17,212</u>
Total primary government expenses	<u>\$ 90,513</u>	<u>\$ 98,479</u>	<u>\$ 103,723</u>	<u>\$ 107,054</u>	<u>\$ 111,171</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General Government	\$ 465	\$ 437	\$ 860	\$ 906	\$ 580
Building	1,951	1,305	1,488	2,899	5,800
Public Works	285	320	307	311	344
Engineering and Planning	913	901	1,185	1,678	2,412
Recreation	1,226	1,382	1,391	1,482	1,496
Police	1,083	1,190	1,273	1,693	1,132
Fire	524	490	766	305	1,070
Operating grants and contributions	6,098	3,697	4,197	3,780	4,089
Capital grants and contributions	8,521	8,124	13,770	12,012	12,971
Total governmental activities program revenues	<u>21,066</u>	<u>17,846</u>	<u>25,237</u>	<u>25,066</u>	<u>29,894</u>
Business-type activities					
Charges for services:					
Water Utility	10,148	10,779	12,265	12,430	13,224
Recycled Water Utility	680	747	878	1,017	1,086
Sewer Utility	7,826	6,547	7,472	8,253	8,966
Operating grants and contributions	857	0	0	0	0
Capital grants and contributions	3,400	8,937	1,602	604	3,854
Total business-type activities program revenue	<u>22,911</u>	<u>27,010</u>	<u>22,217</u>	<u>22,304</u>	<u>27,130</u>
Total primary government program revenues	<u>\$ 43,977</u>	<u>\$ 44,856</u>	<u>\$ 47,454</u>	<u>\$ 47,370</u>	<u>\$ 57,024</u>
Net (Expense)/Revenue					
Governmental activities	(\$ 54,537)	(\$ 65,058)	(\$ 62,189)	(\$ 66,033)	(\$ 64,065)
Business-type activities	8,001	11,435	5,920	6,349	9,918
Total primary government net expense	<u>(\$ 46,536)</u>	<u>(\$ 53,623)</u>	<u>(\$ 56,269)</u>	<u>(\$ 59,684)</u>	<u>(\$ 54,147)</u>

**CITY OF MILPITAS
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS**

(accrual basis of accounting)

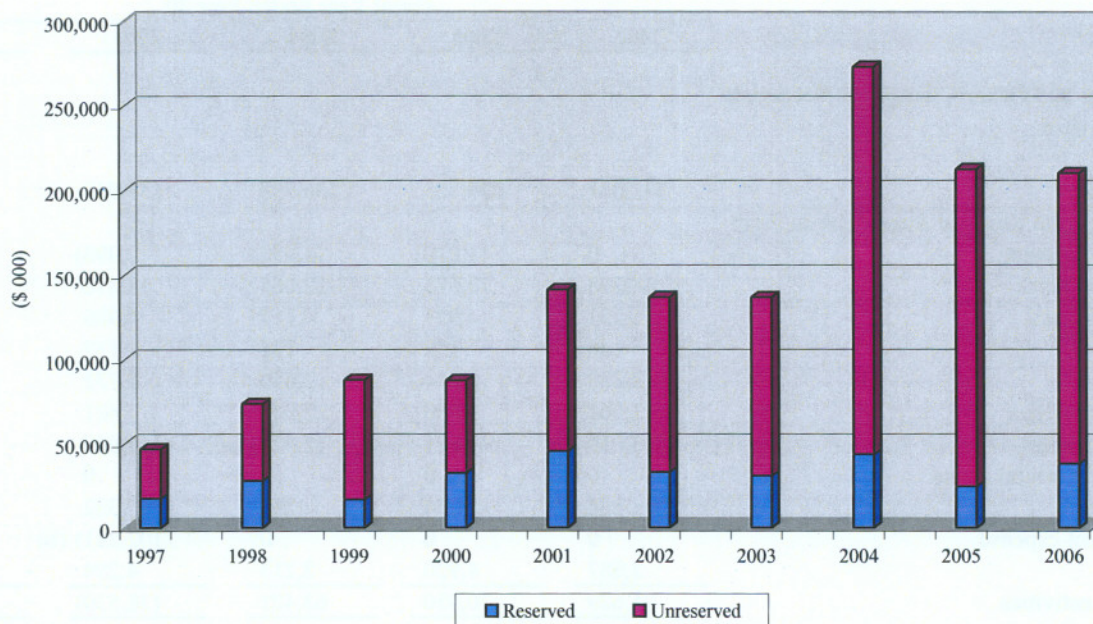
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
Governmental activities					
Taxes:					
Property taxes	\$42,081	\$39,823	\$36,788	\$38,913	\$44,026
Less: Educational Revenue Augmentation Fund					
Fund payment	0	(1,010)	(1,950)	(2,993)	(2,422)
Sales and use taxes	14,298	12,573	12,065	13,816	15,613
Hotel/Motel taxes	5,791	4,953	4,717	4,986	5,669
Other taxes	146	152	138	132	133
Franchise fees	2,882	2,674	2,650	2,772	2,643
Motor vehicle in lieu	3,561	3,680	2,969	421	1,548
Investment earnings	3,019	2,611	(2,427) (a)	1,069	1,302
Gain on sale of capital assets	0	0	0	0	12
Miscellaneous	164	54	258	332	856
Redevelopment expense	0	0	0	(102,281) (b)	0
Transfers	3,687	4,920	8,213	4,294	6,633
Total government activities	<u>75,629</u>	<u>70,430</u>	<u>63,421</u>	<u>(38,539)</u>	<u>76,013</u>
Business-type activities					
Investment earnings	1,807	1,417	1,068 (a)	627	924
Loss on adjustment of capital assets valuation	0	(2,073)	0	0	0
Transfers	(3,687)	(4,920)	(8,213)	(4,294)	(6,633)
Total business-type activities	<u>(1,880)</u>	<u>(5,576)</u>	<u>(7,145)</u>	<u>(3,667)</u>	<u>(5,709)</u>
Total primary government	<u>\$ 73,749</u>	<u>\$ 64,854</u>	<u>\$ 56,276</u>	<u>(\$ 42,206)</u>	<u>\$ 70,304</u>
Change in net assets					
Governmental activities	\$ 21,092	\$ 5,372	\$ 1,232	(\$ 104,572)	\$ 11,948
Business-type activities	6,121	5,859	(1,225)	2,682	4,209
Total primary government	<u>\$ 27,213</u>	<u>\$ 11,231</u>	<u>\$ 7</u>	<u>(\$ 101,890)</u>	<u>\$ 16,157</u>

The City of Milpitas implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

- (a) In 2004, the fair value of the City's investments decreased \$3,764 K in government activities and \$55K in business-type activities.
- (b) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

CITY OF MILPITAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 770	\$ 2,589	\$ 3,472	\$ 2,086	\$ 3,075	\$ 3,458	\$ 1,434	\$ 2,366	\$ 1,344	\$ 1,315
Unreserved	11,584	9,621	11,589	18,969	32,998	36,588	37,529	30,636	26,699	27,966
Total General Fund	<u>\$ 12,354</u>	<u>\$ 12,210</u>	<u>\$ 15,061</u>	<u>\$ 21,055</u>	<u>\$ 36,073</u>	<u>\$ 40,046</u>	<u>\$ 38,963</u>	<u>\$ 33,002</u>	<u>\$ 28,043</u>	<u>\$ 29,281</u>
All Other Governmental Funds										
Reserved	\$16,600	\$25,191	\$13,240	\$30,310	\$42,427	\$29,489	\$29,351	\$41,131	\$23,049	\$36,812
Unreserved, reported in:										
Special revenue funds	3,260	(5,893)	(6,851)	(6,744)	(2,315)	3,454	8,113	19,493	23,745	3,524
Capital project funds	14,494	41,920	66,182	42,775	64,996	63,454	59,127	179,291	137,415	140,259
Debt service funds	0	3	0	0	0	185	966	0	0	0
Total all other governmental funds	<u>\$ 34,354</u>	<u>\$ 61,221</u>	<u>\$ 72,571</u>	<u>\$ 66,341</u>	<u>\$ 105,108</u>	<u>\$ 96,582</u>	<u>\$ 97,557</u>	<u>\$ 239,915</u>	<u>\$ 184,209</u>	<u>\$ 180,595</u>

CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST FIVE FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Revenues					
Property taxes	\$41,782	\$39,520	\$36,186	\$38,337	\$43,155
Less: Educational Revenue					
Augmentation Fund payment	0	(1,010)	(1,950)	(2,993)	(2,422)
Sales taxes	15,009	13,222	12,655	14,409	16,228
Other taxes	9,572	8,509	8,555	9,066	10,003
Licenses and fines	2,974	2,431	3,020	4,328	7,357
Interest and others	8,948	7,086	2,515 (a)	6,149	6,260
Intergovernmental	8,587	9,442	11,124	4,914	6,045
Charges for services	2,683	2,721	3,277	3,842	4,165
Developer contributions	1,536	823	3,452	1,439	5,010
Other	458	361	798	4,097	1,186
Total Revenues	91,549	83,105	79,632	83,588	96,987
Expenditures					
Current:					
General government	10,391	11,245	10,365	13,026	15,608
Building	2,368	2,389	1,978	2,075	2,226
Public works	7,171	7,085	7,130	7,736	7,789
Engineering and planning	8,381	6,262	5,983	6,444	6,581
Recreation	3,532	3,806	3,860	4,199	4,284
Police	15,740	17,197	18,384	19,723	20,167
Fire	11,218	11,957	12,864	15,363	14,312
Capital outlay	30,227	17,431	11,169	15,998	16,861
Payments under developer agreements	210	98	127	0	0
Debt service:					
Principal	6,260	6,470	8,860	6,605	8,559
Interest and fees	4,198	4,194	9,686	9,379	9,424
Total Expenditures	99,696	88,134	90,406	100,548	105,811
Excess (deficiency) of revenues over (under) expenditures	(8,147)	(5,029)	(10,774)	(16,960)	(8,824)
Other Financing Sources (Uses)					
Proceeds from debt issuance	0	0	200,000	0	0
Bond issuance premium	0	0	5,372	0	0
Payments to refunded debt escrow agent	0	0	(67,164)	0	0
Transfers in	47,363	42,620	124,899	23,095	28,523
Transfers (out)	(43,681)	(37,700)	(115,936)	(18,801)	(22,075)
Total other financing sources (uses)	3,682	4,920	147,171	4,294	6,448
Special Item					
Redevelopment expense	0	0	0	(48,000) (b)	0
Net Change in fund balances	(\$4,465)	(\$109)	\$136,397	(\$60,666)	(\$2,376)
Debt service as a percentage of noncapital expenditures	17.8%	17.7%	31.2%	23.3%	20.5%

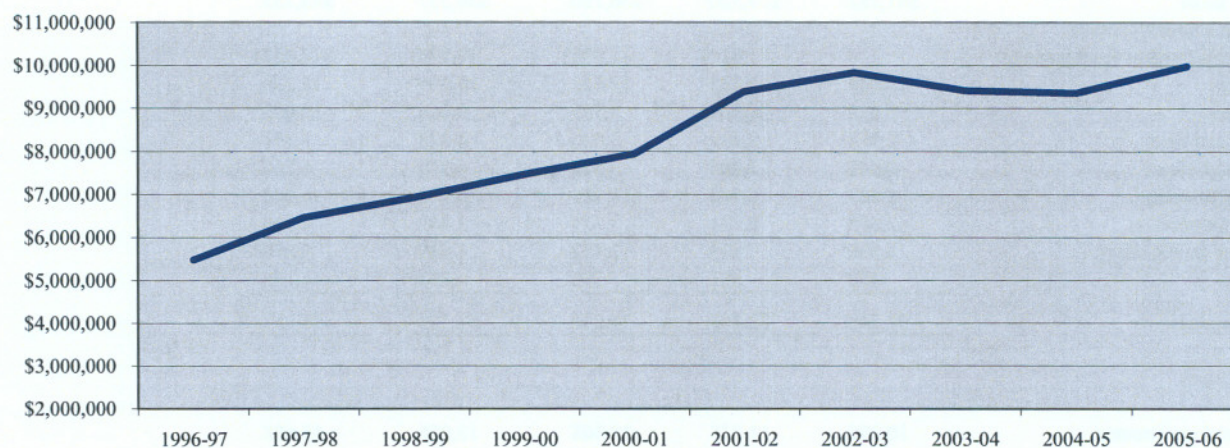
The City of Milpitas has elected to show only five years of data for this schedule (c).

(a) In 2004, the fair value of the investments decreased \$3,764 K in governmental activities.

(b) In 2005, the Redevelopment Agency made a cash payment of \$48,000 K to the County of Santa Clara for two parcels of land.

(c) The categories of expenditures in governmental funds were presented differently after fiscal year 2002 due to the implementation of GASB Statement 34. Data prior to 2002 was omitted due to comparability of the statements.

CITY OF MILPITAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollars in Thousands)



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
1996-97	N/A	N/A	N/A	N/A	N/A	N/A	\$5,471,125	1%
1997-98	N/A	N/A	N/A	N/A	N/A	N/A	6,452,227	1%
1998-99	N/A	N/A	N/A	N/A	N/A	N/A	6,919,759	1%
1999-00	N/A	N/A	N/A	N/A	N/A	N/A	7,455,656	1%
2000-01	\$3,413,377	\$790,469	\$1,791,693	\$536,246	\$1,482,114	(\$81,540)	7,932,359	1%
2001-02	3,417,125	779,136	2,166,036	1,274,151	1,825,539	(85,563)	9,376,424	1%
2002-03	3,746,467	835,889	2,502,123	1,016,922	1,833,384	(111,940)	9,822,845	1%
2003-04	4,377,568	964,438	2,340,453	227,739	1,595,224	107,860	9,397,563	1%
2004-05	4,572,065	798,350	2,095,928	603,547	1,379,444	(110,377)	9,338,957	1%
2005-06	4,952,629	814,287	2,032,245	641,662	1,651,527	(131,810)	9,960,540	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Note:

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF MILPITAS
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS
 (Rate per \$100 of assessed value))

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
1996-97	\$ 1.00	\$ 1.00	\$ 0.0365	\$ 0.0501	\$ 0.0102
1997-98	1.00	1.00	0.0412	0.0266	0.0098
1998-99	1.00	1.00	0.0405	0.0464	0.0082
1999-00	1.00	1.00	0.0343	0.0601	0.0085
2000-01	1.00	1.00	0.0380	0.0615	0.0075
2001-02	1.00	1.00	0.0388	0.0496	0.0062
2002-03	1.00	1.00	0.0412	0.0567	0.0072
2003-04	1.00	1.00	0.0412	0.0582	0.0075
2004-05	1.00	1.00	0.0412	0.0624	0.0086
2005-06	1.00	1.00	0.0412	0.0881	0.0078

Source: County of Santa Clara, Tax Rates & Information

Notes:

- (a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
- (b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
 PRINCIPAL PROPERTY TAX PAYERS
 FISCAL YEARS 2005-06 and 1996-97
 (Dollars in thousands)

Taxpayer	2005-06			1996-97		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
KLA Tencor Corporation	\$ 356,391	1	3.58%			
Milpitas Mills Limited Partnership	288,541	2	2.90%			
Cisco Technology Inc.	253,182	3	2.54%			
Silicon Valley California LLC	158,624	4	1.59%			
Linear Technology Corporation	130,995	5	1.32%			
Headway Technologies Inc.	128,941	6	1.29%			
Seagate Technologies LLC	126,396	7	1.27%			
Trinet Milpitas Associates LLC	93,553	8	0.94%			
Lifescan, Inc.	86,999	9	0.87%	\$ 77,520	2	1.42%
Solelectron Corporation	83,334	10	0.84%			
Richard T. Peery Trustee & Et. Al.				135,150	1	2.47%
Adaptec, Inc.				60,349	3	1.10%
Limar Realty Corp., No. 9				52,426	4	0.96%
TCR No. 704 Brander Mill				49,443	5	0.90%
Shapell Industries Inc.				46,754	6	0.85%
BNP Leasing Corp.				41,739	7	0.76%
Octel Communication Corp.				35,316	8	0.65%
Milpitas-Fleming Associates				34,766	9	0.64%
Great Mall of the Bay Area				34,766	10	0.64%
Subtotal	\$ <u>1,706,955</u>		<u>17.14%</u>	\$ <u>568,229</u>		<u>10.39%</u>

Fiscal Year 2005-2006 Total Net Assessed Valuation \$ 9,960,540

Fiscal Year 1996-1997 Total Net Assessed Valuation \$ 5,471,125

Source: HdI, Coren & Cone, Santa Clara County Assessor 2005/06 Combined Tax Rolls

CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
1996-97	\$ 20,565	\$ 20,565	100.00%	\$ 0	\$ 20,565	100.00%
1997-98	25,431	25,431	100.00%	0	25,431	100.00%
1998-99	28,464	28,464	100.00%	0	28,464	100.00%
1999-00	31,831	31,831	100.00%	0	31,831	100.00%
2000-01	34,592	34,592	100.00%	0	34,592	100.00%
2001-02	41,782	41,782	100.00%	0	41,782	100.00%
2002-03	39,520	39,520	100.00%	0	39,520	100.00%
2003-04	36,186	36,186	100.00%	0	36,186	100.00%
2004-05	38,337	38,337	100.00%	0	38,337	100.00%
2005-06	43,155	43,155	100.00%	0	43,155	100.00%

(a) The City selected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollars in thousands, except per capita)

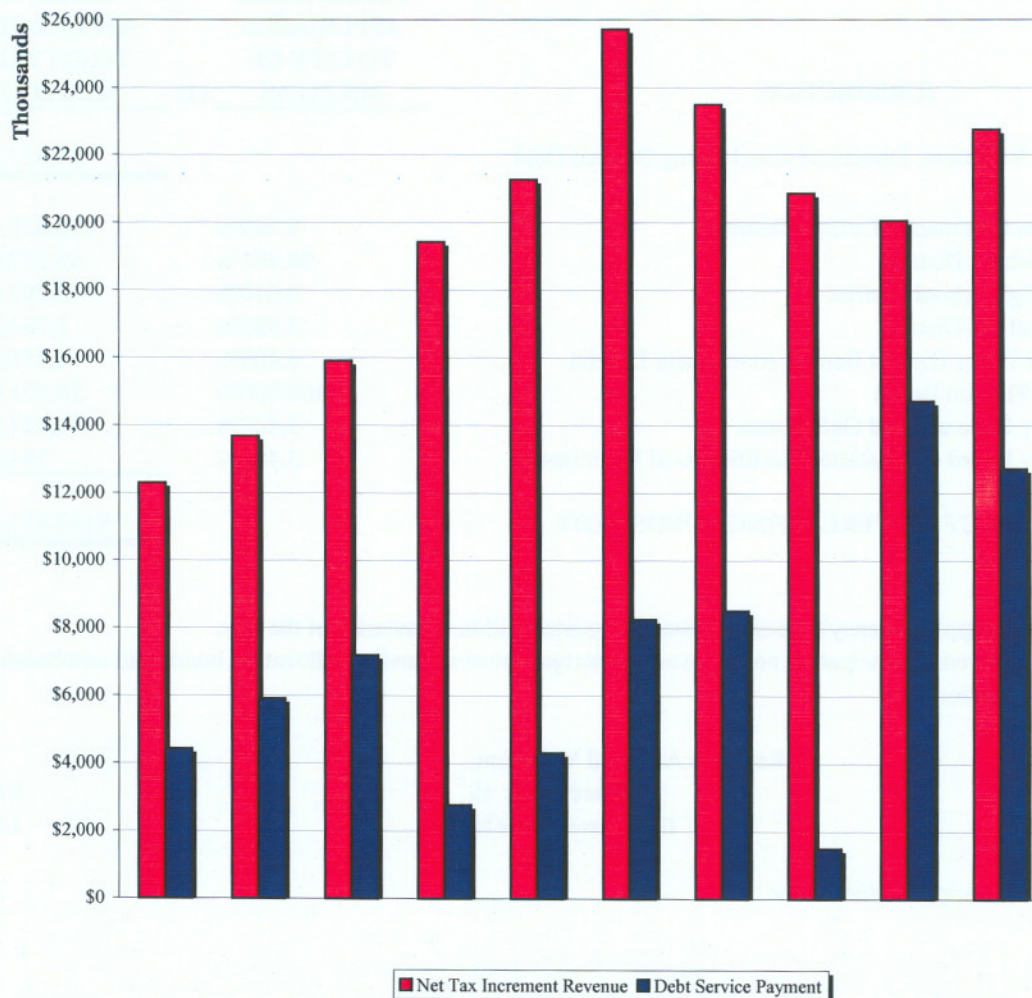
Fiscal Year	Sales Tax Revenue Bonds	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1996-97	0	0	\$8,245	0	\$8,245	0.40%	\$135
1997-98	0	0	42,805	0	42,805	1.85%	684
1998-99	0	0	37,810	0	37,810	1.51%	588
1999-00	0	0	46,205	0	46,205	1.61%	708
2000-01	\$8,795	\$8,610	73,155	0	90,560	2.65%	1,429
2001-02	8,335	7,640	68,325	0	84,300	2.70%	1,322
2002-03	7,855	6,680	63,295	0	77,830	2.60%	1,196
2003-04	0	5,675	200,000	0	205,675	6.92%	3,182
2004-05	0	4,630	194,440	\$54,281	253,351	7.95%	3,898
2005-06	0	3,540	190,780	50,471	244,791	(b)	3,750

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 14 for personal income and population data.

(b) Data for fiscal year 2005-06 not available until May of 2007.

CITY OF MILPITAS
BONDED DEBT PLEDGED REVENUE COVERAGE
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS



Fiscal Year	Redevelopment Agency Property Tax Increments	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1997	\$15,535,764	\$3,239,908	\$12,295,856	\$3,860,000	\$557,470	\$4,417,470	2.78
1998	17,791,347	4,105,854	13,685,493	4,785,000	1,130,450	5,915,450	2.31
1999	20,221,790	4,311,212	15,910,578	4,995,000	2,200,066	7,195,066	2.21
2000	24,282,112	4,865,649	19,416,463	810,000	1,967,521	2,777,521	6.99
2001	26,579,328	5,315,867	21,263,461	1,845,000	2,464,912	4,309,912	4.93
2002	32,387,027	6,667,458	25,719,569	4,830,000	3,426,503	8,256,503	3.12
2003	29,511,358	6,023,817	23,487,541	5,030,000	3,482,488	8,512,488	2.76
2004	26,171,147	5,315,246	20,855,901	0 (a)	1,494,048	1,494,048	13.96
2005	25,215,408	5,160,555	20,054,853	5,560,000	9,163,896	14,723,896	1.36
2006	28,606,441	5,867,736	22,738,705	3,660,000	9,062,546	12,722,546	1.79

(a) The Agency issued the 2003 Tax Allocation Bonds and refunded the prior outstanding debt issues. Therefore, no principal payments were due in that fiscal year.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2006

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS	(1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2004-05 Assessed Valuation, Direct and Overlapping Bonded Debt			<u>\$7,357,211</u>
San Jose-Evergreen Community College District	9.769%		\$16,228,475
Milpitas Unified School District	98.491%		55,937,963
East Side Union High School District	0.610%		2,262,609
Berryessa Union School District	3.585%		1,764,825
Santa Clara Valley Water District Benefit Assessment District	3.403%		6,256,416
City of Milpitas, 1915 Act Bonds	100.000%		28,475,000
Santa Clara County General Fund Obligations	3.403%		31,327,848
Santa Clara County Board of Education Certificates of Participation	3.403%		<u>584,295</u>
TOTAL GROSS DIRECT & OVERLAPPING BONDS DEBT			<u>\$142,837,431</u> (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt %	0.05%
Total Gross Debt %	1.99%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2005-06

Assessed value (net) - June 30, 2006	<u>\$9,960,540</u>
Debt limit: 3.75% of assessed value (a)	373,520
Debt applicable to limit	
Total Bonded Debt	\$194,320
Less: Tax Allocation Bonds and Certificates of Participation, not subject to limit	194,320
Amount of Debt subject to limit	<u>0</u>
Legal debt margin	<u>\$373,520</u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
1996-97	\$205,167	\$0	\$205,167	0.0%
1997-98	241,959	0	241,959	0.0%
1998-99	259,491	0	259,491	0.0%
1999-00	279,587	0	279,587	0.0%
2000-01	297,492	0	297,492	0.0%
2001-02	351,616	0	351,616	0.0%
2002-03	368,356	0	368,356	0.0%
2003-04	352,408	0	352,408	0.0%
2004-05	350,211	0	350,211	0.0%
2005-06	373,520	0	373,520	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department
Santa Clara County Tax Assessor's Office

CITY OF MILPITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Dollars in Thousands)

<u>Fiscal Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Per Capita Personal Income (a)</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%) (a)</u>	<u>Land Area (Sq. Mile)</u>
1996-97	61,229	4,482	\$34	9,788	3.20%	13.66
1997-98	62,588	4,582	37	9,946	3.20%	13.66
1998-99	64,325	4,709	39	9,917	3.40%	13.66
1999-00	65,254	4,777	44	9,925	3.50%	13.66
2000-01	63,395	4,641	54	9,702	5.00%	13.66
2001-02	63,768	4,668	49	9,424	8.70%	13.66
2002-03	65,049	4,762	46	9,516	9.30%	13.66
2003-04	64,629	4,731	46	9,528	6.90%	13.66
2004-05	64,998	3,823	49	9,602	5.60%	17.00
2005-06	65,276	3,840	(b)	9,748	4.40%	17.00

(a) For Santa Clara County.

(b) Data for fiscal year 2005-06 is not available until May of 2007.

Sources: California Department of Education
California Employment Development Department
State of California, Department of Finance.
U.S. Department of Commerce, Bureau of Economic Analysis

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2004-05 and 1996-97

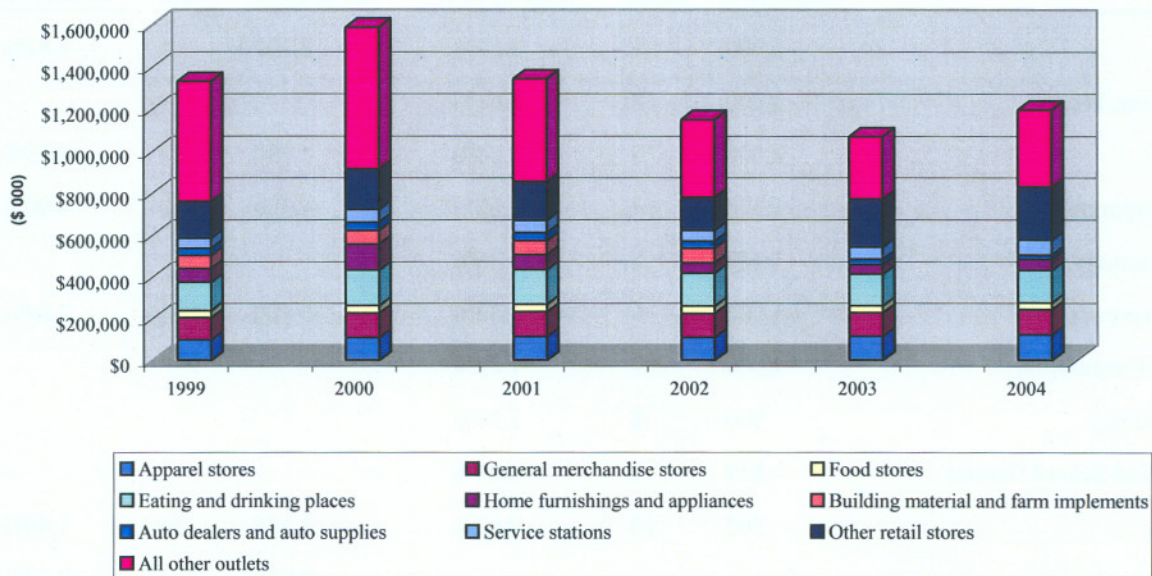
Employer	2004-05 (a)			1996-97		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Great Mall	3,000	1	3.67%	2,300	4	2.82%
CISCO Systems, Inc.	3,000	2	3.67%			
Lifescan, Inc.	2,500	3	3.06%	1,700	7	2.08%
LSI Logic Corporation	1,320	4	1.62%	4,000	2	4.90%
Seagate Technology	1,100	5	1.35%			
Solelectron Corporation	1,000	6	1.22%	6,400	1	7.84%
KLA-Tencor Corporation	1,000	7	1.22%			
Linear Technology	900	8	1.10%			
Milpitas Unified School District	849	9	1.04%			
Adaptec, Inc.	505	10	0.62%	1,145	10	1.40%
Quantum				2,700	3	3.31%
Sun Microsystems				2,250	5	2.76%
Read Rite				1,700	6	2.08%
Komag				1,700	8	2.08%
Octel Communications				1,600	9	1.96%
Subtotal	<u>15,174</u>		<u>19%</u>	<u>25,495</u>		<u>31%</u>

Estimated City Day Population, Census 2000 81,646

(a) Data for fiscal year 2005-06 is not available until December 2006.

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

**CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST SIX CALENDAR YEARS
(Dollars in Thousands)**



	CALENDAR YEARS					
	1999	2000	2001	2002	2003	2004
Apparel stores	\$99,089	\$109,258	\$113,729	\$109,078	\$114,599	\$123,583
General merchandise stores	106,071	117,006	118,362	115,336	113,574	119,471
Food stores	34,461	37,075	37,302	35,830	33,765	32,950
Eating and drinking places	136,510	170,825	166,174	159,420	152,736	156,318
Home furnishings and appliances	66,492	123,801	72,493	48,513	45,497	54,460
Building material and farm implements	61,846	66,251	66,570	70,600	(a)	(a)
Auto dealers and auto supplies	33,388	38,105	38,684	32,433	25,558	19,990
Service stations	49,424	61,244	58,395	52,369	58,491	71,231
Other retail stores	174,803	194,086	184,594	156,196	227,373	251,599
All other outlets	571,419	673,677	489,438	373,179	301,404	370,253
Total	\$1,333,503	\$1,591,328	\$1,345,741	\$1,152,954	\$1,072,997	\$1,199,855
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information. The numbers are included with "Other retail stores".

Source: California State Board of Equalization

CITY OF MILPITAS
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rate	Santa Clara County
1996-97	1.00	1.25
1997-98	1.00	1.25
1998-99	1.00	1.25
1999-00	1.00	1.25
2000-01	1.00	1.25
2001-02	1.00	1.25
2002-03	1.00	1.25
2003-04	1.00	1.25
2004-05	1.00	1.25
2005-06	0.75 (a)	1.25

Source: California State Board of Equalization

(a) Effective July 1, 2004, the general purpose sale and use tax rate for local governments decreased from 1% to 0.75%. Property tax revenues are provided to offset the reduction in sales and use tax revenues.

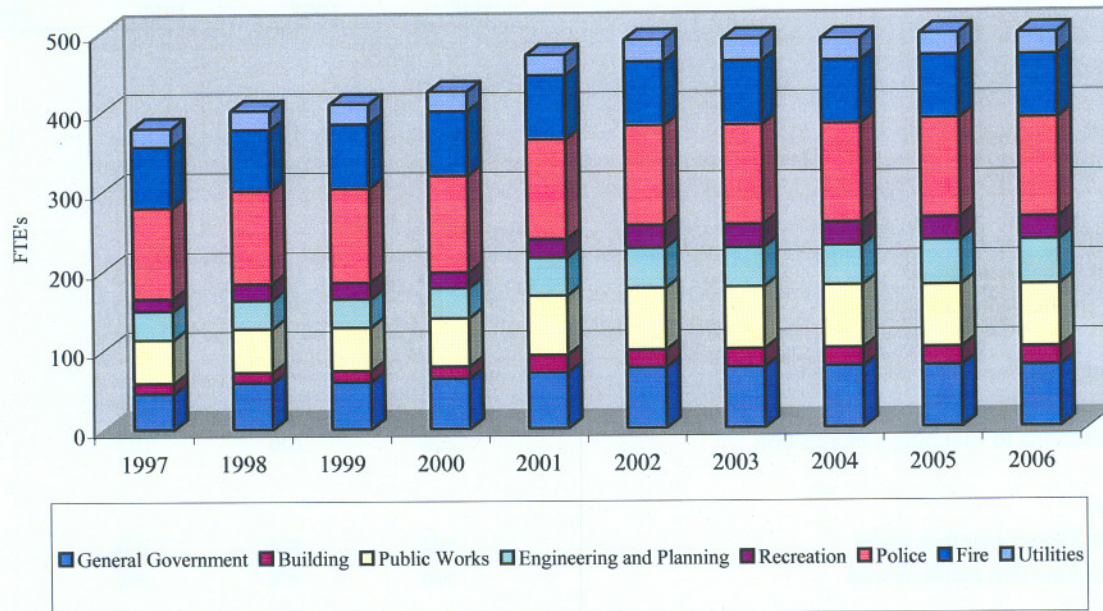
CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 FISCAL YEAR 2005-06 and 1999-2000
 IN ALPHABETICAL ORDER

2005-06	1999-2000 (a)
Best Buy Stores	Acropolis Systems
Burlington Coat Factory	ADAC Laboratories
Chevron Service Stations	Adaptec
Chili's Grill & Bar	Arcom Electronics Inc.
Contract Office Group	Best Buy Stores
Credence Systems Corp	Billings Chevrolet
Dave & Busters	Burlington Coat Factory
Force 10 Networks	Contract Office Group
Hanson Concrete Products	Divicom
Headway Technologies	Dynamic Circuits
Home Depot	GAP Stores
KLA Tencor Corporation	Hanson Concrete Products
Magic Technologies	Home Depot
Marshall's Stores	KLA-Tencor Corporation
Maxtor Corporation	Life Scan Inc
McDonald's Restaurants	Lindsay_Ferrari, Inc.
Mervyn's Department Store	Marshall Industries
Milpitas Materials Company	Marshall's Store
Nike Factory Store	Mervyn's Department Stores
One Workplace L Ferrari	Milpitas Materials Company
Orchard Supply Hardware	Octel Communications
Rackable Systems	Orchard Supply Hardware
Saks Fifth Avenue	Saks Fifth Avenue
Sportmart	Sun Microsystems
Wal-Mart Stores	Wal-Mart Stores

(a) The City started tracking principal sales tax payers in 1999-2000.

Source: MBIA MuniServices Company

CITY OF MILPITAS
AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS



Function	Adopted for Fiscal Year Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government	45.0	58.3	58.8	63.3	70.3	76.3	76.3	77.0	77.3	77.0
Building	13.0	13.0	14.0	15.0	22.0	22.0	23.0	23.0	23.0	23.0
Public Works	55.0	55.0	55.0	61.0	75.0	78.0	78.0	79.0	78.8	79.0
Engineering and Planning	36.0	36.0	36.0	38.0	47.5	50.5	49.5	49.5	55.5	55.5
Recreation	16.0	21.0	21.0	20.0	23.5	28.5	29.0	29.0	29.0	29.0
Police:										
Sworn Police	84.0	86.0	86.5	89.0	94.0	94.0	94.0	94.0	94.0	94.0
Civilians	30.0	31.0	31.5	32.5	31.5	31.5	31.5	30.5	30.5	30.5
Fire:										
Firefighters and Safety										
Officers	68.0	67.0	71.0	71.0	71.0	71.0	71.0	70.0	70.0	70.0
Civilians	9.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	23.0	24.0	25.0	25.0	26.0	27.0	27.0	27.0	27.0	27.0
Total	379.0	401.3	408.8	424.8	470.8	488.8	489.3	489.0	495.0	495.0

Source: City of Milpitas, final budget

CITY OF MILPITAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	1997	1998	1999	2000	2001
Building					
Building permits issued	1,805	1,742	1,850	1,585	1,690
Plan checked performed	580	412	1,040	432	410
Public Works					
Street miles maintained	125	125	126	126	136
Play ground safety inspections	n/a	990	990	833	521
Engineering and Planning					
Development projects reviewed	120	200	170	170	160
Applications to Planning Commission	206	206	143	141	101
Recreation					
Sports Center member visits	n/a	n/a	n/a	n/a	n/a
Senior nutrition meals served	n/a	n/a	n/a	n/a	23,727
Police					
Avg response time to emergency calls (minutes)	n/a	n/a	n/a	n/a	n/a
Number of anti-terrorist patrol checks	n/a	n/a	n/a	n/a	n/a
Crime prevention presentations	n/a	n/a	n/a	n/a	191
Number of vehicle citations issued	n/a	n/a	n/a	n/a	16,003
DARE presentations: schools/students	11/836	11/852	14/1,178	14/1,528	14/1,795
Fire					
Emergency calls for service	2,309	2,469	2,710	3,802	3,250
Public education events	136	90	90	110	120
Permits Inspections	n/a	3,202	3,680	3,742	3,500
Plan Review	1,469	1,145	1,170	950	1,070
Utility					
Clean sewer lines (feet)	515,824	458,962	559,440	687,724	800,000
Repair, replace or set water meters	618	539	738	569	700
Average daily consumption (thousands of gallons)	11,200	11,015	10,047	11,095	11,587

Source: City of Milpitas, final budget

Fiscal Year				
2002	2003	2004	2005	2006
1,735	1,777	1,650	3,156	3,470
340	536	590	650	700
137	137	137	138	139
852	1,508	784	1,062	1,304
150	115	n/a	n/a	293
110	93	100	120	152
n/a	62,749	70,000	72,000	81,500
23,886	23,886	16,139	17,782	19,400
n/a	n/a	3:35	3:44	3:21
n/a	2,924	7,649	10,664	12,390
191	175	201	180	196
12,804	15,312	15,041	14,453	15,108
14/1468	14/1,456	13/1,610	14/1579	13/1534
3,550	3,850	4,100	4,200	4,250
140	75	73	75	70
3,750	2,160	1,909	2,514	4,100
1,420	660	786	845	1,500
552,000	347,670	358,610	500,000	500,000
678	399	341	422	425
10,290	11,120	11,222	10,090	9,162

CITY OF MILPITAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	1997	1998	1999	2000	2001
Public Works					
Miles of streets	125	125	126	127	137
Street lights	5,075	4,753	4,976	4,976	n/a
Square feet of buildings maintained (in thousands)	215	215	215	215	215
City vehicles	401	437	475	483	490
Signs	6,200	6,300	6,300	6,300	6,300
Signal lights	56	59	64	64	64
City Parks	28	28	28	28	28
Acres of Parkland	178	178	178	178	178
Playgrounds	26	26	26	26	26
Miles of Park pathways	47.7	47.7	47.7	47.7	47.7
Recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	4	4	4	4	4
Tennis courts	24	24	24	24	24
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	10	10	10	10	10
Basketball courts	5	5	5	5	5
Volleyball courts	6	6	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	1	1	1	1	2
Police patrol vehicles	20	25	26	27	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	15	9	10	10	10
Fire hydrants	1,593	1,598	1,614	1,650	1,656
Utility					
Miles of water mains	194	194	195	197	198
Miles of underground utilities	443	443	450	463	469
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	15.64
Miles of sanitary sewers	163	163	164	166	166
Miles of storm drain	90	94	96	98	100
Miles of recycled water main	n/a	7.5	7.5	7.5	7.5

Source: City of Milpitas, final budget

Fiscal Year				
2002	2003	2004	2005	2006
137	137	137	137	139
4,262	4,281	4,324	4,346	4,354
252	299	344	350	350
657	618	626	631	635
6,900	7,050	7,150	7,250	7,167
64	66	68	68	68
24	26	24	26	26
178	161	171	172	171.6
26	26	26	32	32
47.7	47.7	47.7	47.7	47.7
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
24	24	24	22	22
1	1	1	1	1
21	21	21	21	21
10	10	13	13	13
5	5	5	5	5
7	7	7	7	7
4	4	4	4	4
2	2	2	2	2
28	30	30	30	30
4	4	4	4	4
10	11	15	13	14
1,661	1,670	1,739	1,755	1,756
198	199	202	203	204
471	473	480	493	493
15.64	15.64	15.64	15.64	16
167	168	168	173	173
98	99	99	99	105
7.5	7.5	7.5	11.0	11

